UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 8-K/A
(Amendment No. 1)

CURRENT REPORT
Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): October 2, 2020

INVITAE CORPORATION
(Exact name of registrant as specified in its charter)

Delaware	001-36847	27-1701898
(State or Other Jurisdiction of Incorporation)	(Commission File Number)	(I.R.S. Employer Identification No.)

1400 16th Street, San Francisco, California	94103
(Address of principal executive offices)	(Zip Code)

(415) 374-7782
(Registrant's telephone number, including area code)

N/A
(Former name or former address, if changed since last report.)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240-13e-4(c))

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

Title of each class	Trading symbol(s)	Name of each exchange on which registered
Common Stock, $0.0001 par value per share	**NVTA**	**The New York Stock Exchange LLC**

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§ 230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

Emerging growth company ☐

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

INTRODUCTORY NOTE

This Form 8-K/A is filed as an amendment (this "Amendment No. 1") to the Current Report on Form 8-K filed by Invitae Corporation (the "Company") on October 5, 2020 (the "Original Form 8-K"). This Amendment No. 1 is being filed to include the financial statements and financial information required under Item 9.01.

Item 9.01 Financial Statements and Exhibits.

(a) The historical audited consolidated financial statements of ArcherDX, Inc. ("ArcherDX") as of and for the years ended December 31, 2019 and 2018 and related notes are attached as Exhibit 99.1 to this Current Report on Form 8-K and incorporated herein by reference.

The unaudited consolidated financial statements of ArcherDX as of and for the three and nine months ended September 30, 2020 and 2019 and the related notes are attached as Exhibit 99.2 to this Current Report on Form 8-K and incorporated herein by reference.

(b) The unaudited pro forma condensed combined financial information for the year ended December 31, 2019 and as of and for the nine months ended September 30, 2020 are attached as Exhibit 99.3 to this Current Report on Form 8-K and incorporated herein by reference.

(d) Exhibits.

Exhibit No.	Description
23.1	Consent of Ernst & Young LLP, independent registered public accounting firm of ArcherDX, Inc.
99.1	Historical audited consolidated financial statements of ArcherDX, Inc. as of and for the years ended December 31, 2019 and 2018.
99.2	Unaudited consolidated financial statements of ArcherDX, Inc. as of and for the three and nine months ended September 30, 2020 and 2019.
99.3	Unaudited pro forma condensed combined financial information as of and for the year ended December 31, 2019 and as of and for the nine months ended September 30, 2020.
104	Cover Page Interactive Data File (embedded within the Inline XBRL document).

SIGNATURE

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

Dated: November 20, 2020

INVITAE CORPORATION

By:	/s/ Thomas R. Brida
Name:	Thomas R. Brida
Title:	General Counsel

Exhibit 23.1

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the following Registration Statements of Invitae Corporation:

- Registration Statements on Form S-3 (Nos. 333-220053 and 333-220054) of Invitae Corporation and the related prospectuses
- Registration Statements on Form S-3ASR (Nos. 333-230053, 333-233109, 333-233110, 333-234768, 333-237268, 333-237758 and 333-237759) of Invitae Corporation and the related prospectuses
- Registration Statements on Form S-4 (Nos. 333-220447 and 333-240137) of Invitae Corporation, including any post-effective amendments thereto on Form S-3 or Form S-8
- Registration Statement on Form S-8 (No. 333-202066) pertaining to the 2015 Stock Incentive Plan, the Employee Stock Purchase Plan, and the 2010 Stock Incentive Plan of Invitae Corporation
- Registration Statements on Form S-8 (Nos. 333-216761, 333-223455, 333-229972 and 333-236799) pertaining to the 2015 Stock Incentive Plan and the Employee Stock Purchase Plan of Invitae Corporation
- Registration Statements on Form S-8 (Nos. 333-232208, 333-237073, 333-240360 and 333-249894) pertaining to the 2015 Stock Incentive Plan of Invitae Corporation

of our report dated March 6, 2020 (except for Reverse Stock Split in Note 2, as to which the date is August 25, 2020, and Going Concern, Liquidity and Capital Resources in Note 2, as to which the date is November 20, 2020), relating to the consolidated financial statements of ArcherDX, Inc. as of and for the years ended December 31, 2019 and 2018 appearing in this Current Report on Form 8-K/A of Invitae Corporation.

/s/ Ernst & Young LLP

Denver, Colorado
November 20, 2020

Index to Financial Statements

Exhibit 99.1

ArcherDX, Inc.

Consolidated Financial Statements
As of December 31, 2018 and 2019, and
For the Years Ended December 31, 2018 and 2019

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS OF ARCHERDX, INC.
As of December 31, 2018 and 2019, and
For the Years Ended December 31, 2018 and 2019

Report of Independent Registered Public Accounting Firm

To the Stockholders and the Board of Directors of ArcherDX, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of ArcherDX, Inc. (the Company) as of December 31, 2018 and 2019, the related consolidated statements of operations and comprehensive loss, convertible preferred stock and stockholders' deficit and cash flows for the years then ended, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2018 and 2019, and the results of its operations and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

Adoption of ASU No. 2016-02

As discussed in Note 2 to the consolidated financial statements, the Company changed its method of accounting for leases in the December 31, 2019 consolidated financial statements due to the adoption of ASU No. 2016-02, Leases.

The Company's Ability to Continue as a Going Concern

Since the date of completion of our audit of the accompanying consolidated financial statements and initial issuance of our report thereon dated March 6, 2020, except for Going Concern, Liquidity and Capital Resources and Reverse Stock Split in Note 2, as to which the date is August 25, 2020, which report contained an explanatory paragraph regarding the Company's ability to continue as a going concern, the Company, as discussed in Note 2, has completed the Merger Agreement with Invitae Corporation resulting in additional access to liquidity. Therefore, the conditions that raised substantial doubt about whether the Company will continue as a going concern no longer exist. Our opinion is not modified with respect to this matter.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Ernst & Young LLP

We have served as the Company's auditor since 2018.

Denver, Colorado
March 6, 2020, except for Reverse Stock Split in Note 2, as to which the date is August 25, 2020, and except for Going Concern, Liquidity and Capital Resources in Note 2, as to which the date is November 20, 2020.

ARCHERDX, INC.
Consolidated Balance Sheets
(in thousands, except share and per share data)

	2018	2019
ASSETS		
Current assets:		
Cash and cash equivalents	$ 9,324	$ 59,492
Accounts receivable, net	6,743	15,354
Inventories	2,506	6,002
Prepaid expenses and other current assets	658	2,442
Total current assets	19,231	83,290
Property and equipment, net	2,813	10,811
Right-of-use assets, net	—	4,813
Intangible assets, net	1,755	780
Goodwill	5,453	4,972
Restricted cash	150	—
Other assets	73	2,130
Total assets	$ 29,475	$ 106,796
LIABILITIES, CONVERTIBLE PREFERRED STOCK, AND STOCKHOLDERS' DEFICIT		
Current liabilities		
Accounts payable	$ 3,540	$ 5,657
Accrued expenses	1,193	2,025
Accrued compensation	595	2,824
Lease liabilities	—	577
Other current liabilities	27	1,060
Deferred revenue	3,704	6,234
Total current liabilities	9,059	18,377
Long-term lease liabilities—less current portion	—	4,310
Long-term debt, net	—	28,572
Other long-term liabilities	3,331	10,622
Total liabilities	12,390	61,881
Commitments and contingencies (Note 16)		
Convertible preferred stock, $0.001 par value, 15,000,000 and 28,293,525 shares authorized, 8,783,772 and 17,609,298 shares issued and outstanding with aggregate liquidation preference of $44,413 and $114,397 as of December 31, 2018 and 2019, respectively	42,180	110,154
Stockholders' deficit:		
Common stock, $0.01 par value, 30,000,000 and 45,000,000 shares authorized, 6,375,767 and 6,454,355 shares issued and outstanding as of December 31, 2018 and 2019, respectively	64	65
Additional paid-in capital	3,106	3,939
Accumulated deficit	(28,265)	(69,243)
Total stockholders' equity (deficit)	(25,095)	(65,239)
Total liabilities, convertible preferred stock, and stockholders' deficit	$ 29,475	$ 106,796

See accompanying Notes to Consolidated Financial Statements.

ARCHERDX, INC.
Consolidated Statements of Operations and Comprehensive Loss
(in thousands, except share and per share data)

	Year Ended December 31, 2018	Year Ended December 31, 2019
Revenue		
Precision oncology products	$ 16,025	$ 22,644
Pharma development services	12,429	27,921
Total revenue	28,454	50,565
Costs & operating expenses		
Cost of precision oncology products	4,033	7,335
Cost of pharma development services	6,230	9,212
Sales and marketing	7,215	15,428
Research and development	8,184	34,172
General and administrative	7,700	15,875
Contingent consideration	—	5,768
Total operating expenses	33,362	87,790
Loss from operations	(4,908)	(37,225)
Interest expense, net	(1,160)	(2,432)
Other income (expense), net	34	(824)
Loss before income taxes	(6,034)	(40,481)
Income tax (benefit) expense	(481)	497
Net loss and comprehensive loss	$ (5,553)	$ (40,978)
Basic and diluted loss per common share	$ (0.87)	$ (6.39)
Basic and diluted weighted-average common shares outstanding	6,376,987	6,415,227

See accompanying Notes to Consolidated Financial Statements.

Index to Financial Statements

ARCHERDX, INC.
Consolidated Statements of Convertible Preferred Stock and Stockholders' Deficit
For the Years Ended December 31, 2018 and 2019
(in thousands, except share amounts)

	Convertible Preferred Stock		Common Stock		Additional Paid-In Capital	Accumulated Deficit	Total Stockholders' Deficit
	Shares	Amount	Shares	Amount			
Balance—January 1, 2018	—	—	6,377,878	$ 64	$ 2,833	$ (22,712)	$ (19,815)
Issuance of Series A convertible preferred stock for cash and conversion of debt, net of issuance costs of $206	7,764,831	37,436	—	—	—	—	—
Issuance of Series A convertible preferred stock as merger consideration	1,018,941	4,744	—	—	—	—	—
Issuance of common stock options as merger consideration	—	—	—	—	47	—	47
Repurchase of restricted stock	—	—	(2,111)	—	—	—	—
Stock-based compensation expense	—	—	—	—	226	—	226
Net loss	—	—	—	—	—	(5,553)	(5,553)
Balance—December 31, 2018	8,783,772	42,180	6,375,767	64	3,106	(28,265)	(25,095)
Issuance of Series B and Series C convertible preferred stock for cash, net of issuance costs of $2,010	8,828,807	67,990	—	—	—	—	—
Repurchase of Series A convertible preferred stock	(3,281)	(16)	—	—	—	—	—
Stock-based compensation expense	—	—	—	—	751	—	751
Proceeds from exercise of stock options	—	—	78,588	1	82	—	83
Net loss	—	—	—	—	—	(40,978)	(40,978)
Balance—December 31, 2019	17,609,298	$ 110,154	6,454,355	$ 65	$ 3,939	$ (69,243)	$ (65,239)

See accompanying Notes to Consolidated Financial Statements.

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ARCHERDX, INC.
Consolidated Statements of Cash Flows
(in thousands)

	For the Years Ended December 31, 2018	2019
Cash flows from operating activities		
Net loss	$ (5,553)	$ (40,978)
Adjustments to reconcile net loss to net cash used in operating activities		
Depreciation and amortization	849	2,687
Amortization of debt issuance costs and debt extinguishment	739	197
Bad debt expense	60	(60)
Stock-based compensation expense	226	751
Change in fair value of contingent consideration	—	5,768
Change in fair value of convertible preferred stock warrants	(64)	802
Change in allowance for obsolete inventory	188	37
Deferred tax (benefit) expense	(481)	481
Changes in assets and liabilities		
Accounts receivable	(3,030)	(8,551)
Inventories	(1,142)	(3,533)
Prepaid expenses and other assets	(302)	(4,464)
Accounts payable and accrued liabilities	2,218	6,833
Lease liabilities	—	45
Deferred revenue	1,704	2,531
Deferred rent	(15)	—
Net cash used in operating activities	(4,603)	(37,454)
Cash flows from investing activities		
Purchase of property and equipment	(2,324)	(9,710)
Cash acquired in merger transaction	346	—
Net cash used in investing activities	(1,978)	(9,710)
Cash flows from financing activities		
Proceeds from issuance of convertible preferred stock, net of issuance costs	14,793	67,990
Proceeds from borrowing under credit facility, net of issuance costs	—	29,125
Repayment of related party debt	(1,250)	—
Payments on capital lease obligations	(15)	—
Proceeds from exercise of stock options	—	83
Repurchase of Series A convertible preferred stock	—	(16)
Net cash provided by financing activities	13,528	97,182
Net increase in cash, cash equivalents, and restricted cash	6,947	50,018
Cash, cash equivalents, and restricted cash at beginning of year	2,527	9,474
Cash, cash equivalents, and restricted cash at end of year	$ 9,474	$ 59,492
Non-cash financing activities:		
Conversion of convertible debt and accrued interest into convertible preferred stock	$22,642	$ —
Issuance of warrant with credit facility	—	$ 750
Issuance of convertible preferred stock for merger consideration	$ 4,745	$ —

Supplemental disclosure of cash flow information:

Cash paid for interest for the years ended December 31, 2018 and 2019 was $0.3 million and $2.2 million, respectively.

See accompanying Notes to Consolidated Financial Statements.

ArcherDX, Inc.

Notes to the Consolidated Financial Statements

1. Nature of Business

ArcherDX, Inc. (together with its consolidated subsidiary, ArcherDX) is a leading genomic analysis company focused on democratizing precision oncology. ArcherDX was originally incorporated in January 2013, and subsequently merged into Enzymatics, Inc., or Enzymatics, in August 2013. In November 2014, the ArcherDX business unit was spun out from Enzymatics and incorporated in Delaware.

ArcherDX develops and commercializes research use only, or RUO, products, and offers services that meet the unique needs of its customers and their clinical applications. ArcherDX's RUO product portfolio consists of VariantPlex, FusionPlex, LiquidPlex and Immunoverse, which are collectively referred to as ArcherPlex. ArcherDX also has in vitro diagnostic, or IVD, products in development, STRATAFIDE and Personalized Cancer Monitoring, or PCM, which have both received Breakthrough Device designation from the U.S. Food & Drug Administration, or FDA.

2. Summary of Significant Accounting Policies

Basis of Presentation and Consolidation

The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States, or U.S. GAAP. Any reference in these notes to applicable guidance is meant to refer to the authoritative U.S. GAAP as found in the Accounting Standards Codification, or ASC, and Accounting Standards Update, or ASU, of the Financial Accounting Standards Board, or FASB. ArcherDX's consolidated financial statements include the accounts of ArcherDX, Inc. and its wholly-owned subsidiary, ArcherDX Clinical Services, Inc., formerly Baby Genes, Inc. All intercompany balances and transactions have been eliminated.

Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. On an ongoing basis, ArcherDX evaluates its estimates, including estimates related to revenue, the allowance for doubtful accounts, the allowance for obsolete inventory, allocation of purchase price in business combinations, contingent consideration, convertible preferred stock warrants, intangible assets impairment and stock-based compensation. ArcherDX bases its estimates on historical experience and other market-specific or other relevant assumptions that it believes to be reasonable under the circumstances. Actual results could differ from those estimates.

Going Concern, Liquidity and Capital Resources

ArcherDX has incurred losses and negative cash flows since its inception. As of December 31, 2019, ArcherDX had an accumulated deficit of $69.2 million.

ArcherDX has funded operations to date principally from the sale of convertible preferred stock, the issuance of convertible notes, entry into term loans and, to a lesser extent, products and services revenue. As of December 31, 2019, ArcherDX had cash and cash equivalents of $59.5 million.

ArcherDX evaluated whether there are any conditions and events, considered in the aggregate, that raise substantial doubt about its ability to continue as a going concern over the next twelve months through November 2021. ArcherDX's cash requirements include, but are not limited to, investments in the research and development of its technologies and sales and marketing, capital expenditures, and working capital requirements. On October 2, 2020, we completed our Merger Agreement with Invitae Corporation, or "Invitae". We have incurred substantial losses since our inception, and we expect to continue to incur losses in the near term. We believe our existing cash, cash equivalents and marketable securities, as well as the additional access to liquidity as a result of our October 2, 2020 merger with Invitae Corporation, will be sufficient to meet our anticipated cash requirements for at least one year after the date the financial statements are issued.

Segment Information

Operating segments are defined as components of an enterprise about which separate discrete information is available for evaluation by the chief operating decision maker, or decision-making group, in deciding how to allocate resources and in assessing performance. ArcherDX views its operations and manages its business in one operating segment, which is the business of delivering precision oncology products and pharma development services to its customers.

Fair Value of Financial Instruments

Cash and cash equivalents and liabilities for contingent consideration and convertible preferred stock warrants are carried at fair value. Financial instruments, including accounts receivable, accounts payable, and accrued expenses are carried at cost, which approximates fair value given their short-term nature (Note 4). Long-term debt is carried at cost, which approximates fair value.

Cash and Cash Equivalents

ArcherDX considers all highly liquid investments with original maturity from the date of purchase of three months or less to be cash equivalents. Cash and cash equivalents include bank demand deposits and money market accounts that invest primarily in U.S. government-backed securities and treasuries. At December 31, 2018 and 2019, ArcherDX had cash equivalents of $0.1 million and $43.2 million, respectively.

Restricted Cash

Restricted cash consisted of a deposit securing a collateral letter of credit issued in connection with the ArcherDX's facility operating lease as of December 31, 2018; the need for the restricted cash balance ended with the amendment to the ArcherDX's facility operating lease. ArcherDX had restricted cash of $0.2 million and $0 as of December 31, 2018 and 2019, respectively.

The following table provides a reconciliation of cash and cash equivalents and restricted cash reported within the balance sheets that sum to the total of the same amounts shown in the statements of cash flows (in thousands):

	December 31,	
	2018	2019
Cash and cash equivalents	$9,324	$59,492
Restricted cash	150	—
Total cash and cash equivalents and restrictions	$9,474	$59,492

Accounts Receivable

ArcherDX provides an allowance for doubtful accounts equal to the estimated uncollectible amounts. ArcherDX's estimate is based on historical collection experience and a review of the current status of trade accounts receivable. It is reasonably possible that ArcherDX's estimate of the allowance for doubtful accounts will change and that losses ultimately incurred could differ materially from the amounts estimated in determining the allowance. At December 31, 2018 and 2019, ArcherDX recorded an allowance of $0.1 million and $0.1 million, respectively.

Concentrations of Risk

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

ArcherDX is also subject to credit risk from its accounts receivable. ArcherDX grants credit in the normal course of business to customers in the U.S. and in foreign countries, predominantly in the European Union and United Kingdom. ArcherDX periodically perform credit analysis and monitor the financial condition of its customers to reduce credit risk. ArcherDX performs ongoing credit evaluations of its customers, but generally does not require collateral to support accounts receivable. Accounts receivable are recorded at the invoiced amount and do not bear interest.

The following table provides ArcherDX's revenue by geographic area based on the customers' location (in thousands):

	December 31,	
	2018	2019
United States	$16,565	$18,069
International	11,889	32,496
Total revenue	$28,454	$50,565

ArcherDX's revenue is generated primarily in the U.S., European Union, and United Kingdom.

Significant customers are those which represent more than 10% of ArcherDX's total revenue or accounts receivable balance at each respective balance sheet date. For each significant customer, revenue as a percentage of revenue and accounts receivable as a percentage of accounts receivable are as follows:

	Revenue for the Year Ended December 31		Accounts Receivable as of December 31	
	2018	2019	2018	2019
Customer A(1)	22%	5%	13%	2%
Customer B(1)	20%	44%	25%	42%

(1) The country of headquarters of Customer A is the US, and the country of headquarters of Customer B is Germany

Inventory

ArcherDX's inventory consists of raw materials, work in progress, and finished goods, which are stated at the lower of cost or net realizable value on a first in, first out basis. ArcherDX periodically analyzes its inventory levels and expiration dates, and write down inventory that has become obsolete, inventory that has a cost basis in excess of its net realizable value, and inventory in excess of expected sales requirements as cost of revenue. ArcherDX records an allowance for obsolete inventory using an estimate based on historical trends and evaluation of near-term expirations.

Prepaid Expenses

Prepaid expenses consist primarily of operating expenses paid in advance.

Property and Equipment

Property and equipment are stated at cost, net of accumulated depreciation and amortization. Depreciation is provided utilizing the straight-line method over the estimated useful lives for owned assets, and the shorter of the estimated economic life or related lease terms for leasehold improvements. Maintenance and repairs are expensed as incurred.

Estimated useful lives for property and equipment are as follows:

Property and Equipment	Estimated Useful Life
Furniture and fixtures	7 years
Manufacturing and lab equipment	5 years
Computer equipment	3 years
Leasehold improvements	Lesser of estimated useful life or remaining lease term

Long-Lived Assets

ArcherDX evaluates the recoverability of long-lived assets, including property and equipment and intangible assets, whenever events or changes in circumstances indicate that an asset's carrying amount may not be recoverable. In such circumstances, ArcherDX looks primarily to the undiscounted future cash flows in its assessment of whether or not long-lived assets have been impaired. There were no impairments recorded for the years ended December 31, 2018 and 2019. Substantially all of ArcherDX's long-lived assets are located in the U.S.

Goodwill

Goodwill represents the excess of the purchase price over the fair value of net assets acquired in a business combination accounted for under the acquisition method of accounting and is not amortized, but is subject to impairment testing at least annually in the fourth quarter or when a triggering event is identified that could indicate a potential impairment. ArcherDX is organized as a single reporting unit, and it first performs a qualitative assessment to evaluate indicators of goodwill impairment. If it is more likely than not that an impairment exists, ArcherDX performs a quantitative assessment by comparing the carrying value of the reporting unit to the fair value of ArcherDX. There were no impairments recorded for the years ended December 31, 2018 and 2019. Goodwill was recorded as a result of the Baby Genes, Inc. acquisition in 2018 (Note 3).

Deferred Revenue

Advanced billings for services to customers, including billings at the initiation of a performance-based milestone, are deferred and recognized as revenue in the applicable future period when the revenue is earned. The following table provides a reconciliation of deferred revenue to revenue recognized from deferred revenue during the years ended December 31, 2018 and 2019 (in thousands):

	December 31,	
	2018	2019
Deferred revenue, beginning balance	$ 2,000	$ 3,704
Plus deferred revenue added during the year	4,388	9,601
Less Revenue recognized from deferred revenue during the year	(2,684)	(7,071)
Deferred revenue, ending balance	$ 3,704	$ 6,234

Revenue Recognition

ArcherDX recognizes revenue when its customer obtains control of promised goods or services, in an amount that reflects the consideration which ArcherDX expects to receive in exchange for those goods or services. To determine revenue recognition, ArcherDX follows the following five steps: (i) identify the contract(s) with a customer; (ii) identify the performance obligations in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations in the contract; and (v) recognize revenue when (or as) ArcherDX satisfies a performance obligation.

The following is a summary of the application of the respective model to each of ArcherDX's revenue classifications:

Overview

ArcherDX derives revenue from two sources: (i) precision oncology products and (ii) pharma development services.

Precision Oncology Products Revenue

Precision oncology product revenue is generated from sales of ArcherDX's genomic products, which can either be sold alone or in combination with a service performance obligation. When sold in combination, ArcherDX uses its precision oncology products to provide clinical research and clinical trial services to its customers.

From ArcherDX's inception through December 31, 2019, precision oncology product revenue has been comprised primarily of sales of its ArcherPlex RUO products for therapy optimization and PCM products for cancer monitoring. ArcherDX recognizes revenue on precision oncology product sales once product shipment has occurred or upon the completion of services when the product and service are a combined performance obligation. Payments from customers are typically due within 90 days from invoice date.

Product sales are recorded net of discounts and other deductions. ArcherDX recognizes revenue on precision oncology product sales once product shipment has occurred or upon the completion of services when the product and service are a combined performance obligation. Payments typically are due 30 days from invoice date.

Shipping and handling fees billed to customers are classified on the consolidated statements of operations and comprehensive loss in revenue. The associated shipping and handling costs are classified in cost of revenue.

Pharma Development Services Revenue

Pharma development services revenue is generated primarily from services provided to biopharmaceutical companies related to companion diagnostic development, clinical research, and clinical trial services across the research, development, and commercialization phases of collaborations.

For companion diagnostic development, ArcherDX collaborates with biopharmaceutical companies to develop assays for clinical utility studies and clinical trials. As part of these collaborations, ArcherDX provides services related to regulatory filings with the FDA in the United States, and various international regulatory agencies, to support companion diagnostic device submissions. Under these collaborations ArcherDX generates revenue from achievement of milestones, provision of ongoing support, and related pass-through costs and fees. ArcherDX generally has distinct performance obligations for development milestones related to its development of a companion diagnostic device. ArcherDX uses a cost plus a margin approach to estimate the standalone value of its companion diagnostic development service performance obligations. Revenue is recognized over time using input and output methods based on ArcherDX's surveys of performance completed to date toward each milestone including labor hours expended, tests processed or time elapsed.

Clinical research activities and clinical trial service revenue are generated primarily from customer assay design services and sample processing activities, excluding the product component of sample processing activities. Revenue is recognized as test samples are processed or scope of work is completed, based on contracted agreements with biopharmaceutical companies.

In November 2017, ArcherDX signed its first companion diagnostic contract. Under the $11.3 million time and materials arrangement, ArcherDX was developing an oncology companion diagnostic device for use in the customer's clinical trials of its investigational drug. Upon contract signing, ArcherDX received $2.0 million of the contract price as an upfront deposit that was recorded as deferred revenue and is creditable toward the final contract billings. For this companion diagnostic contract, ArcherDX recognized revenue as time and materials expenses are incurred and charged to the third party on a monthly basis. On April 30, 2019, the customer notified ArcherDX that the customer's related clinical drug trial had not met its primary endpoint for drug efficacy, and that the customer was terminating its contract with ArcherDX. ArcherDX quantified and offset the final study costs and wind-down costs of $1.4 million against the $2.0 million upfront deposit received from the customer in November 2017. ArcherDX refunded $0.6 million of unapplied deposit to the customer in June 2019.

In 2018 and 2019, ArcherDX signed additional companion diagnostic contracts. The contracts consist primarily of milestone-based payments along with annual fees and marked-up pass-through costs. The arrangements are treated as short-term contracts for revenue recognition purposes because they allow termination of the agreements by the customers with 30 to 120 days' written notice without a termination penalty. Upon termination, customers are required to pay for the proportion of services provided under milestones that were in progress. ArcherDX recognizes revenue in an amount that reflects the consideration which it expects to receive in exchange for those goods or services after consideration of the short term nature of its contracts. ArcherDX recognizes revenue over time based on the progress made toward achieving the performance obligation, utilizing both input and output methods, depending on the performance obligation, including labor hours expended, tests processed, or time elapsed, that measure ArcherDX's progress toward the achievement of the milestone. Milestones are billed at 30%-50% upon milestone initiation and are recorded as deferred revenue until earned; once a milestone is completed, the remaining 50%-70% of the milestone is billed to the customer. Unbilled revenue is a contract receivable that is included in net accounts receivable on the consolidated balance sheets; unbilled revenue was $1.4 million and $6.5 million at December 31, 2018 and 2019, respectively.

Cost of Revenue

Cost of Precision Oncology Products Revenue

Cost of precision oncology products generally consist of the cost of materials and consumables, personnel-related expenses (comprised of salaries, benefits, bonuses, and share-based compensation), shipping and handling, royalties, professional services, equipment and allocated overhead costs associated with the manufacturing of products. Allocated overhead costs include allocated occupancy costs and information technology costs.

Cost of Pharma Development Services

Cost of pharma development services generally consists of personnel-related expenses (comprised of salaries, benefits, bonuses, and share-based compensation), the cost of consumables, equipment expenses associated with sample processing, costs paid to contract research organizations for lab services and clinical trial support, and allocated overheads costs. Allocated overhead costs include allocated occupancy costs and information technology costs. Costs associated with processing samples are recorded regardless of whether revenue was recognized with respect to the performance obligation. Additional costs associated with companion diagnostic development services for biopharmaceutical companies also include, but are not limited to, contractors and professional services, regulatory fees, and commercialization fees.

Costs incurred for process development, feasibility, or analytical and clinical validation activities that would have otherwise been incurred for product development for STRATAFIDE and PCM IVD are reported as research and development expenses.

Research and Development

ArcherDX is currently conducting research and development activities for product and service offerings across therapy optimization and cancer monitoring. Expenditures made for research and development are charged to expense as incurred and include, but are not limited to, personnel-related expenses (comprised of salaries, benefits, bonuses, and share-based compensation), laboratory supplies, biorepository and sequencing costs, consulting services, including, but not limited to, statistical analysis, engineering, and regulatory services, and allocated overhead costs. Allocated overhead costs include allocated occupancy costs and information technology costs.

A component of ArcherDX's internal research and development expenses related to process development, feasibility, or analytical and clinical validation activities also meet the performance obligations under contracts to provide companion diagnostic development services.

License Agreements

ArcherDX has entered and may continue to enter into license agreements to access and utilize certain technology. In each case, ArcherDX evaluates if the license agreement results in the acquisition of an asset or a business. ArcherDX evaluates the license to determine if the acquired asset has the ability to generate revenues or is subject to regulatory approval. When regulatory approval is not required, ArcherDX records the license as an asset and amortize it over the estimated economic life. When regulatory approval is required, ArcherDX records the amount paid as a research and development expense.

Advertising Costs

ArcherDX expenses advertising costs as incurred. Advertising expense for the years ended December 31, 2018 and 2019 was $0.1 million and $0.2 million, respectively.

Income Taxes

ArcherDX accounts for income taxes under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases using enacted tax rates in effect for the year in which the differences are expected to affect taxable income. Tax benefits are recognized when it is more likely than not that a tax position will be sustained during an audit. Deferred tax assets are reduced by a valuation allowance if current evidence indicates that it is considered more likely than not that these benefits will not be realized. Interest and penalties, if applicable, are recorded in the period assessed as general and administrative expenses.

Recently Adopted Accounting Pronouncements

In January 2017, the FASB issued ASU No. 2017-04, *Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*, an amendment to simplify the subsequent quantitative measurement of goodwill by eliminating step two from the goodwill impairment test. As amended, an entity will recognize an impairment charge for the amount by which the carrying amount of a reporting unit exceeds its fair value, not to exceed the total amount of goodwill allocated to the reporting unit. An entity still has the option to perform the qualitative test for a reporting unit to determine if the quantitative impairment test is necessary. This amendment is effective for annual or interim goodwill impairment tests in fiscal years beginning after December 15, 2019. Entities should apply the amendment prospectively. Early adoption is permitted, including in an interim period, for impairment tests performed after January 1, 2017. ArcherDX adopted ASU 2017-04 effective January 1, 2019; ArcherDX's adoption of the new guidance did not have a material impact on its consolidated financial statements.

In February 2017, the FASB issued ASU No. 2017-02, *Leases (Topic 842)*, which requires lessees to recognize assets and liabilities for the rights and obligations created by most leases on their balance sheet. The new standard establishes a right-of-use ("ROU") model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases are classified as either finance or operating, with classification affecting the pattern of expense recognition on the consolidated statements of operations and comprehensive loss. ArcherDX adopted this guidance on January 1, 2019, utilizing the modified retrospective adoption for all leases existing at, or entered into after, the date of initial application, which leaves the comparative period reporting unchanged. Comparative reporting periods are presented in accordance with Topic 840, while periods subsequent to the effective date are presented in accordance with Topic 842. ArcherDX elected to adopt the package practical expedient which allowed us: 1) to not reassess whether any expired or existing contracts are or contain leases, 2) to not reassess the lease classification for any expired or existing leases and 3) to not reassess initial direct costs for any existing leases. ArcherDX also elected not to recognize on the balance sheet leases with terms of 12 months or less. For these short-term leases, ArcherDX will recognize the lease payments in profit or loss on a straight-line basis over the lease term and the variable lease payments in the period in which the obligation for those payments is incurred. Adoption of the new lease standard resulted in the recording of net right-of-use assets and lease liabilities of $4.8 million and $5.0 million, respectively, as of January 1, 2019. There was no material impact on the consolidated statements of operations and comprehensive loss or on the consolidated statements of cash flows.

In June 2018, the FASB issued ASU 2018-07, *Compensation—Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting*, which simplifies the accounting for share-based payment granted to nonemployees for goods and services. Under the standard, most of the guidance on such payments to nonemployees would be aligned with the requirements for share-based payments granted to employees. ArcherDX adopted ASU 2018-07 as of January 1, 2019. ArcherDX's adoption of the new standard did not have a material impact on its consolidated financial statements and related disclosures.

Recently Issued Accounting Pronouncements

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments.* The guidance is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted. ArcherDX will adopt ASU 2016-13 as of January 1, 2020. ArcherDX is currently evaluating the impact the standard may have on its consolidated financial statements and related disclosures.

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement.* The guidance is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted. ArcherDX will adopt ASU 2018-02 as of January 1, 2020. ArcherDX is currently evaluating the impact the standard may have on its consolidated financial statements and related disclosures.

Reverse Stock Split

On June 17, 2020, ArcherDX effected a 0.7039-for-1 reverse stock split of its common and preferred stock. The par value and the authorized number of shares of the common and preferred stock were not adjusted as a result of the reverse stock split. The accompanying consolidated financial statements and notes to the financial statements give retroactive effect to the reverse stock split for all periods presented. No fractional shares were issued in connection with the reverse stock split. Any fractional share resulting from the reverse stock split was rounded down to the nearest whole share, and in lieu of any fractional shares, ArcherDX will pay in cash to the holders of such fractional shares an amount equal to the fair value, as determined by the board of directors, of such fractional shares.

3. Business Combination

On October 2, 2018, ArcherDX entered into an Agreement and Plan of Merger with Baby Genes, Inc. ("Baby Genes"), a prenatal and neonatal genetic testing Clinical Laboratory Improvement Amendments ("CLIA") laboratory certified by the Centers for Medicare & Medicaid Services. The purpose of the acquisition was the extension of ArcherDX's molecular diagnostic portfolio and genomic profiling service offerings to further support ArcherDX's biopharmaceutical partners' therapy development and clinical trial programs. Pursuant to the Baby Genes merger agreement, ArcherDX purchased all issued and outstanding shares of common stock of Baby Genes for 1,018,941 shares of its Series A convertible preferred stock, with up to an additional 1,463,758 shares of ArcherDX's Series A convertible preferred stock to be issued upon the achievement of certain revenue-based milestones by Baby Genes in 2019 and 2020. Holders of Baby Genes common stock options agreed to the cancellation of employee options in exchange for ArcherDX issuing them options to purchase 69,681 shares of ArcherDX's common stock. As a result of this transaction, Baby Genes is a wholly owned subsidiary of ArcherDX and now formally exists as ArcherDX Clinical Services, Inc. ("ACS"). The Baby Genes merger is a related party transaction. The president and chief executive officer of ArcherDX is a founder, major shareholder, and board member of Baby Genes and is related to the president and chief executive officer of Baby Genes.

Baby Genes' results of operations were included in ArcherDX's results beginning October 2, 2018. Acquisition-related costs of approximately $9,000 were included in general and administrative expenses in ArcherDX's consolidated statement of operations and comprehensive loss for the year ended December 31, 2018. The fair value of the Series A convertible preferred stock issued as part of the consideration paid for Baby Genes on the acquisition date, and the fair value of the Series A convertible preferred stock shares to be issued as contingent consideration, were determined with the assistance of a third-party valuation firm. The fair value of the earn-out shares to be issued as contingent consideration was estimated using an income approach involving Monte Carlo simulation.

Goodwill of $5.0 million arising from the acquisition consisted largely of synergies and the cost savings resulting from the combining of the operations of the companies. The amount of deductible goodwill for income taxes purposes was $0. The fair value of intangible assets related to the acquisition was $1.9 million, consisting of permits and licenses of $0.8 million, trade name of $0.6 million, and non-competition agreement of $0.5 million, as of October 2, 2018; there was no change in the fair value of the intangible assets through December 31, 2018 and 2019.

The following table summarizes the consideration paid for Baby Genes and the amounts of the assets acquired and liabilities assumed at the acquisition date as of December 31, 2019 (in thousands):

Consideration	
Series A convertible preferred stock	$4,745
Net working capital adjustment paid in cash	81
Common stock options issued for vested Baby Genes options	47
Contingent consideration	2,559
Fair value of total consideration transferred	$7,432
Recognized amounts of identifiable assets acquired and liabilities assumed	
Cash	$ 346
Other current assets	228
Property and equipment, net	80
Intangible assets	1,929
Total assets acquired	2,583
Current liabilities	(123)
Total liabilities assumed	(123)
Total identifiable net assets	2,460
Goodwill	$4,972

The following unaudited pro forma operating results give effect to the Baby Genes acquisition as though it had been completed as of January 1, 2018 (in thousands, except per-share data). These pro forma amounts are not necessarily indicative of the operating results that would have occurred if this transaction had occurred on such date. The pro forma adjustments are based on certain assumptions that ArcherDX believes are reasonable.

	Unaudited Pro Forma Financial Information
Revenue	$ 29,151
Net loss and comprehensive loss	$ (6,087)
Basic and diluted loss per share	$ (0.95)

In 2019 ArcherDX repurchased 3,281 Series A convertible preferred stock shares from non-accredited former Baby Genes shareholders for $17,000. Upon finalization of the allocation of the purchase price to the assets and liabilities acquired during the year ended December 31, 2019, deferred tax liabilities initially recorded were reduced to $0.5 million with a corresponding decrease to goodwill recorded. Goodwill for the years ended December 31, 2018 and 2019 was $5.5 million and $5.0 million, respectively.

The contingent consideration included in the Baby Genes purchase price stipulated certain revenue thresholds during the two calendar years following the acquisition. If ArcherDX completes a qualified initial public offering before the end of Year 2, then a portion of the consideration is automatically earned. The contingent consideration is recorded as a liability due to the liquidation preference provisions of the underlying Series A convertible preferred stock, and changes in the fair value are recorded as a component of general and administrative expenses in the consolidated statements of operations and comprehensive loss.

For the year ended December 31, 2019, the Year 1 earn-out criteria was met. As such, ArcherDX will issue 624,277 shares of Series A convertible preferred stock to the former Baby Genes shareholders in February 2020. The fair value of the Series A convertible preferred stock to be issued as contingent consideration was determined by a third-party valuation firm. The fair value of the shares to be issued as contingent consideration for Year 2 was estimated using an income approach involving Monte Carlo simulation. As of December 31, 2019, the fair value of the Year 1 contingent consideration was $4.2 million and the Year 2 contingent consideration was $4.2 million.

4. Fair Value Measurements

Fair value is defined as the exchange price that would be received to sell an asset or paid to transfer a liability (at exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The three levels of inputs that may be used to measure fair value include:

Level 1: Quoted prices in active markets for identical assets or liabilities. ArcherDX's Level 1 assets consist of money market accounts. ArcherDX does not have Level 1 liabilities.

Level 2: Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities in active markets or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. ArcherDX does not have Level 2 assets or liabilities.

Level 3: Unobservable inputs that are supported by little or no market activity. ArcherDX does not have Level 3 assets. ArcherDX's Level 3 liability consists of Series A and B convertible preferred stock warrants and contingent consideration.

The following table identifies ArcherDX's assets and liabilities that were measured at fair value on a recurring basis (in thousands):

	Level 1	Level 2	Level 3
December 31, 2018			
Assets:			
Money market accounts	$ 80	—	
Liabilities:			
Warrant liability	—	—	$ (742)
Contingent consideration	—	—	$(2,559)
December 31, 2019			
Assets:			
Money market accounts	$43,154	—	—
Liabilities:			
Warrant liabilities	—	—	$(2,295)
Contingent consideration			$(8,327)

ArcherDX estimates the fair value of warrants using option-pricing models with the assistance of a third-party valuation specialist.

The following table presents a reconciliation of ArcherDX's financial liabilities measured at fair value as of December 31, 2019 using significant unobservable inputs (Level 3), and the change in fair value recorded in other income, net in the consolidated statements of operations and comprehensive loss (in thousands):

	Convertible Preferred Stock Warrants	Contingent Consideration
Balance as of December 31, 2017	$ 806	$ —
Exchange for Series A convertible preferred stock warrant	—	—
Change in fair value of Series A convertible preferred stock warrant	(64)	—
Addition of contingent consideration	—	2,559
Balance as of December 31, 2018	742	2,559
Issuance of Series B convertible preferred stock warrant	750	—
Change in fair value of Series A and B convertible preferred stock warrants	803	—
Change in fair value of contingent consideration	—	5,768
Balance as of December 31, 2019	$ 2,295	$ 8,327

There were no transfers between the Level 1 and Level 2 categories or into or out of the Level 3 category during the years ended December 31, 2018 and 2019.

5. Inventories

Inventories consist of the following (in thousands):

	December 31, 2018	December 31, 2019
Raw materials	$1,966	$3,640
Work in process	149	1,412
Finished goods	391	950
Total inventories	$2,506	$6,002

6. Property and Equipment

Property and equipment are summarized as follows (in thousands):

	December 31, 2018	December 31, 2019
Manufacturing and lab equipment	$ 4,136	$ 490
Office equipment	490	1,490
Leasehold improvements	105	421
Construction in progress	—	405
Property and equipment, gross	4,731	14,441
Less accumulated depreciation and amortization	(1,918)	(3,630)
Property and equipment, net	$ 2,813	$10,811

Depreciation and amortization expense for the years ended December 31, 2018 and 2019 was $0.6 million and $1.6 million, respectively.

7. Goodwill and Intangible Assets

The carrying amount of goodwill was reduced by $0.5 million since its recognition in 2018 in conjunction with ArcherDX's Baby Genes acquisition. The reduction occurred during the year ended December 31, 2019 and resulted from the finalization of the purchase price allocation to the assets and liabilities acquired and specifically from the reduction in the deferred tax liabilities initially recorded.

Intangible assets subject to amortization consist of the following (in thousands):

	Estimated Useful Life in Years	December 31, 2018	December 31, 2019
Permits and licenses	0.8	$ 898	$ 898
Trade name	7.0	606	606
Non-competition agreement	0.8	518	518
Intangible assets, gross		2,022	2,022
Less accumulated amortization		(267)	(1,242)
Intangible assets, net		$(1,755)	$ 780

Amortization expense for the years ended December 31, 2018 and 2019 was $0.3 million and $1.0 million, respectively.

As of December 31, 2019, expected future amortization expense for intangible assets is as follows (in thousands):

Year Ending December 31,	
2020	$315
2021	$ 95
2022	$ 95
2023	$ 95
2024	$ 95
Thereafter	$ 85

8. Leases for Facilities and Equipment

At the inception of an arrangement, ArcherDX determines whether the arrangement is or contains a lease based on the unique facts and circumstances. Most leases with a term greater than one year are recognized on the balance sheet as right-of-use assets, lease liabilities and, if applicable, long-term lease liabilities. ArcherDX elected not to recognize on the balance sheet leases with terms of one year or less. Lease liabilities and their corresponding right-of-use assets are recorded based on the present value of lease payments over the expected lease term. The interest rate implicit in lease contracts is typically not readily determinable. As such, ArcherDX utilizes the appropriate incremental borrowing rate, which is the rate incurred to borrow on a collateralized basis over a similar term at an amount equal to the lease payments in a similar economic environment. Certain adjustments to the right-of-use asset may be required for items such as incentives received.

ArcherDX's facilities operating leases have lease and non-lease components, which it has elected to separate and exclude from the measurement of the lease liabilities. The lease component results in a right-of-use asset being recorded on the consolidated balance sheet and amortized as lease expense on a straight-line basis to the consolidated statement of operations, and a lease liability, which is the net present value of the lease payments over the expected term.

ArcherDX leases all of its office facilities. Leases with an initial term of 12 months or less are not recorded on the balance sheet; ArcherDX recognizes lease expense for these leases on a straight-line basis over the lease term. Most leases include one or more options to renew. The exercise of lease renewal options is at ArcherDX's sole discretion; a lease renewal option is included in the lease liability when it is likely ArcherDX would exercise the option. ArcherDX's lease agreements do not contain any material residual value guarantees or material restrictive covenants.

ArcherDX also has an operating lease for certain office equipment.

The components of lease expense and related cash flows were as follows (in thousands):

	Year Ended December 31, 2019
Lease cost	
Operating lease cost	$ 1,062
Variable lease cost	94
Total lease cost	$ 1,156
Operating cash outflows from operating leases	$ 1,156

There is no short-term lease cost, and the variable lease cost is not material to the consolidated financial statements.

The weighted-average remaining lease term and weighted-average discount rate of operating leases were as follows:

	December 31, 2019
Weighted-average remaining lease term (years)	5.0%
Weighted-average discount rate	8%

Future minimum commitments due under these lease agreements as of December 31, 2019 are as follows (in thousands):

Year Ending December 31,	
2020	$ 953
2021	1,182
2022	1,239
2023	1,272
2024	1,283
Thereafter	105
Present value adjustment	(1,147)
Total present value of lease payment	$ 4,887

9. Convertible Notes Payable and Other Debt

Convertible Notes Payable

ArcherDX issued convertible promissory notes that had a balance of $20.0 million at December 31, 2017. On March 5, 2018, these notes and their related accrued interest at a rate of 6% converted into 4,798,978 Series A convertible preferred stock shares.

Related Party Note Payable

During 2017, ArcherDX borrowed $1.3 million from PBM Special Projects II, LLC in exchange for a promissory note and an equity participation right equal to 1% of ArcherDX upon a change of control. This was a related party transaction involving a venture capital fund managed by Paul Manning, a member of ArcherDX's board of directors. The equity participation right was valued at approximately $0.8 million at note inception and was recorded as a discount on note payable that was to be amortized to interest expense over the term of the note. ArcherDX repaid the note principal with accrued interest in March 2018 and exchanged the equity participation right for a warrant to purchase 159,866 shares of Series A convertible preferred stock with an exercise price of $0.01 per share. The fair value of the warrant was consistent with the value of the equity participation right. In conjunction with the note repayment, the remaining discount on note payable of $0.8 million was recognized as debt extinguishment, recorded within interest expense.

Accounts Receivable Line of Credit Facility

In September 2018, ArcherDX negotiated an accounts receivable line of credit with Silicon Valley Bank. The term of the line was two years. The agreement included a borrowing base calculation tied to accounts receivable with a maximum availability of $7.5 million and variable interest at prime plus a floor of 4.75%. The line of credit included a termination fee of 3.0% during the first 12 months, 1.5% for the subsequent 12 months, and 0% if the line expires after two years. There were no amounts drawn on the line as of December 31, 2018. The line was subsequently terminated in May 2019 as a condition to closing a debt financing transaction with Perceptive Advisors LLC ("Perceptive"). ArcherDX paid a 3% termination fee of $0.2 million to Silicon Valley Bank to terminate the accounts receivable line of credit, which is recorded as a debt extinguishment cost within interest expense. No amounts had been drawn on the accounts receivable line of credit, and no other amounts were due to the bank upon termination of the line of credit agreement.

Credit Facility

On May 10, 2019, ArcherDX entered into a $45 million credit facility with Perceptive, of which $30 million was immediately drawn as a term loan by ArcherDX. In conjunction with the credit facility, Perceptive received a warrant to purchase 455,188 shares of Series B convertible preferred stock at the Series B original issuance price of $6.85 per share; the warrant expires May 10, 2026. This was accounted for as a discount to the loan.

Under the terms of the credit facility agreement, ArcherDX may draw an additional $15 million before July 15, 2020 if it meets certain revenue milestones.

Perceptive is eligible to receive a delayed draw date warrant for 227,594 Series B shares at an exercise price of $6.85 per share; issuance of the warrant is contingent upon ArcherDX's draw of the additional $15 million under the debt facility.

The outstanding principal amount of the debt facility will accrue interest at an annual rate equal to the Applicable Margin of 8.25% plus the greater of (a) one-month LIBOR or (b) two and three quarters percent (2.75%) per annum. If one-month LIBOR ceases to exist in 2021, the Wall Street Journal Prime Rate will be used as the alternate rate. At December 31, 2019, the interest rate was 11%. Interest is payable monthly in arrears. At closing, ArcherDX incurred a nonrefundable closing fee of $0.7 million, which, along with debt issuance fees of $0.2 million and the initial fair value of the warrant of $0.8 million, is amortized to interest expense over the remaining term of the debt. The fair value of the warrant is $1.0 million; adjustments to the warrant's fair value are recorded within non-operating expenses.

The credit facility is collateralized by ArcherDX's tangible and intangible assets. The debt financing proceeds are to be used for general corporate purposes, including the refinancing of existing debt and the payment of fees and expenses associated with the negotiation, execution and implementation of the credit facility. The credit facility agreement contains certain restrictive covenants, including monthly and quarterly financial covenants tied to ArcherDX's cash balance and 12-month revenues; ArcherDX was in compliance with all covenants as of December 31, 2019. The credit facility matures on May 10, 2023.

10. Income Taxes

ArcherDX's effective tax rates for the years ended December 31, 2018 and 2019 differ from the U.S. federal statutory rate as follows (in thousands):

	Year Ended December 31,	
	2018	2019
	(in thousands)	
Tax at the federal statutory rate	$ (1,278)	$ (8,501)
Stock-based compensation	39	118
Research and development credits	(444)	(65)
Change in valuation allowance	418	9,260
State taxes, net of federal benefits	(223)	(1,520)
Fair value of contingent consideration	—	1,211
Return to provision adjustment	1,007	—
Other	—	(6)
Total provision (benefit) for income taxes	$ (481)	$ 497

The components of the provision for income taxes are as follows:

	Year Ended December 31,	
	2018	2019
	(in thousands)	
Current:		
Federal	$ —	$ —
State	—	16
Total current tax expense	—	16
Deferred:		
Federal	(405)	405
State	(76)	76
Total deferred tax expense	(481)	481
Total provision for income taxes	$ (481)	$ 497

The significant components of ArcherDX's deferred tax assets and liabilities are as follows:

	December 31,	
	2018	2019
	(in thousands)	
Deferred tax assets:		
Net operating loss carryforward	$ 5,271	$ 14,589
Tax credit carryforwards	861	926
Inventory	112	120
Accrued expenses	82	372
Deferred revenue	499	—
Lease liability	—	1,250
Other	56	89
Total deferred tax assets	6,881	17,346
Valuation allowance	(6,377)	(15,747)
Deferred tax assets, net of valuation allowance	504	1,599
Deferred tax liabilities:		
Property, plant and equipment	(83)	(184)
Right of use asset	—	(1,231)
Intangible assets	(421)	(184)
Total deferred tax liabilities	(504)	(1,599)
Net deferred tax assets	$ —	$ —

At December 31, 2019, ArcherDX had net operating loss carryforwards of $56.8 million for federal purposes and $56.4 million for state purposes, respectively, which may be subject to limitations as described below. Utilization of the net operating losses generated prior to 2018, if not utilized to reduce taxable income in future periods, will begin to expire at various times starting in 2034.

Under the current federal income tax law, federal net operating losses incurred in 2018 and in future years may be carried forward indefinitely, but the deductibility of such federal net operating losses is limited for taxable years beginning after December 31, 2020. It is uncertain if and to what extent various states will conform to the newly enacted federal income tax law.

ArcherDX also had federal research and development tax credits of approximately $0.9 million, which may be used to offset future tax liabilities. These tax credit carryforwards will expire in 2035 if not utilized.

The net operating loss and tax credit carryforwards are subject to review and possible adjustment by the Internal Revenue Service and state tax authorities. Net operating loss and tax credit carryforwards may become subject to an annual limitation in the event of certain cumulative changes in the ownership interest of significant stockholders over a three-year period in excess of 50%, as defined under Sections 382 and 383 of the Code, respectively, as well as similar state provisions. This could limit the amount of tax attributes that can be utilized annually to offset future taxable income or tax liabilities. The amount of the annual limitation is determined based on the value of ArcherDX immediately prior to the ownership change. ArcherDX has not completed an evaluation under Sections 382 & 383 and such a limitation could be significant. Subsequent ownership changes may further affect the limitation in future years.

Since ArcherDX is in a loss carryforward position, ArcherDX is generally subject to examination by the U.S. federal, state and local income tax authorities for all tax years in which a loss carryforward is available. ArcherDX is not currently under examination by the Internal Revenue Service or any other jurisdictions for any tax years.

Assessing the realizability of deferred tax assets requires determination of whether it is more likely-than-not that some portion or all of the deferred tax assets will not be realized. In assessing the need for a valuation allowance, ArcherDX considered all sources of taxable income available to realize deferred tax assets, including the future reversal of existing temporary differences, forecasts of future taxable income, and tax planning strategies. Based on the weight of available evidence, which includes ArcherDX's historical period of cumulative net losses, recording a full valuation allowance was appropriate. There are no uncertain tax positions. This reflected an increase in the valuation allowance by approximately $9.4 million and $0.4 million during the years ended December 31, 2019 and 2018, respectively.

11. Convertible Preferred Stock

ArcherDX's convertible preferred stock is comprised of the following series (in thousands, except share amounts):

	Series A Convertible Preferred Stock		Series B Convertible Preferred Stock		Series C Convertible Preferred Stock	
	Shares	Amount	Shares	Amount	Shares	Amount
Balance – January 1, 2018	—	$ —	—	$ —	—	$ —
Issuance of Series A convertible preferred stock	7,764,831	37,436	—	—	—	—
Issuance of convertible preferred stock as merger	1,018,941	4,744	—	—	—	—
Balance—December 31, 2018	8,783,772	42,180	—	—	—	—
Issuance of Series B convertible preferred stock	—	—	2,190,546	13,150	—	—
Issuance of Series C convertible preferred stock	—	—	—	—	6,638,261	54,840
Repurchase of Series A convertible preferred stock	(3,281)	(16)	—	—	—	—
Balance—December 31, 2019	8,780,491	$42,164	2,190,546	$13,150	6,638,261	$54,840

ArcherDX's convertible preferred stock consisted of the following:

	December 31, 2019			
	Shares Authorized	Shares Issued and Outstanding	Aggregate Liquidation Preference	Net Carrying Value
			(in thousands)	
Series A	14,780,767	8,780,491	$ 44,397	$ 42,164
Series B	4,082,031	2,190,546	15,000	13,150
Series C	9,430,727	6,638,261	55,000	54,840
Total convertible preferred stock	28,293,525	17,609,298	$ 114,397	$ 110,154

On March 5, 2018, ArcherDX completed a $37.6 million Series A convertible preferred stock financing with new outside investors led by Boulder Ventures VI, L.P. As a result, 7,764,831 Series A convertible preferred shares were issued. Approximately $23.0 million of the financing was in the form of converted note principal and accrued interest owed to existing investors at $4.72 per share and the resulting issuance of 4,798,978 shares of Series A preferred stock. Accrued interest of $2.7 million was converted into Series A convertible preferred stock. The remaining $15.0 million, net of issuance costs of $0.2 million, was received as cash proceeds to be used for operating purposes.

On May 10, 2019, ArcherDX completed a $15.0 million Series B convertible preferred stock financing round with existing and new outside investors led by Perceptive. As a result, 2,190,546 Series B convertible preferred shares were issued at $6.85 per share, less issuance costs of $1.9 million. The Series B proceeds are to be used to support the ongoing commercialization of ArcherDX's existing assays and products, expand ArcherDX's pipeline and potential business development, and fund working capital.

On December 12, 2019, ArcherDX completed a $55.0 million Series C convertible preferred stock financing with existing and new outside investors led by Perceptive. ArcherDX issued 6,638,261 shares at $8.29 per share, less issuance costs of $0.2 million. The Series C proceeds are used to be used for ongoing operations and business expansion.

The holders of the convertible preferred stock have the following rights and preferences:

Conversion

Each share of convertible preferred stock will be convertible, at the option of the holder thereof, at any time and from time to time, and without the payment of additional consideration by the holder thereof, or automatically upon a Qualified IPO with gross proceeds of at least $50.0 million and a price per common share of at least $12.43, into such number of fully paid and non-assessable shares of common stock as is determined by dividing the original issue price by the convertible preferred stock conversion price in effect at the time of conversion. The convertible preferred stock conversion price will initially be equal to the original issue price for the convertible preferred stock. Such initial convertible preferred stock conversion price, and the rate at which shares of convertible preferred stock may be converted into shares of common stock, is subject to adjustment.

Dividends

ArcherDX will not declare, pay or set aside any dividends on shares of any other class or series of capital stock of ArcherDX (other than dividends on shares of common stock payable in shares of common stock) unless the holders of the convertible preferred stock then outstanding will first receive, or simultaneously receive, out of funds legally available therefor, a dividend on each outstanding share of convertible preferred stock in an amount in cash equal to 6% of the respective original issue price per annum on each outstanding share of such convertible preferred stock calculated from the date of issuance of such share of convertible preferred stock. The foregoing dividends will not be cumulative and will be paid when, as and if declared by the board of directors of ArcherDX, provided that if the foregoing dividends are not declared in any year, the right to receive such dividends will terminate and not carry forward into the next year.

Liquidation Preference

In the event of any liquidation event, including upon a change in control of ArcherDX, the holders of shares of convertible preferred stock then outstanding will be entitled to be paid out of the assets of ArcherDX available for distribution to its stockholders before any payment will be made to the holders of common stock by reason of their ownership thereof, an amount per share equal to the greater of (i) the original issue price, plus any dividends declared but unpaid thereon, or (ii) such amount per share as would have been payable had all shares of convertible preferred stock been converted into common stock immediately prior to such liquidation event If upon any such liquidation event, the assets of ArcherDX available for distribution to its stockholders will be insufficient to pay the holders of shares of convertible preferred stock the full amount to which they will be entitled, the holders of shares of convertible preferred stock will share ratably in any distribution of the assets available for distribution in proportion to the respective amounts which would otherwise be payable in respect of the shares held by them upon such distribution if all amounts payable on or with respect to such shares were paid in full.

Voting

On any matter presented to the stockholders of ArcherDX for their action or consideration at any meeting of stockholders of ArcherDX (or by written consent of stockholders in lieu of meeting), each holder of outstanding shares of convertible preferred stock will be entitled to cast the number of votes equal to the number of whole shares of common stock into which the shares of convertible preferred stock held by such holder are convertible as of the record date for determining stockholders entitled to vote on such matter. Holders of convertible preferred stock will vote together with the holders of common stock as a single class. In addition, holders of convertible preferred stock voting together in a single class are entitled to elect three directors to the board of directors of ArcherDX. The holders of convertible preferred stock also are entitled to vote together as a single class on certain protective matters including the payment of dividends, and the issuance of debt or an additional class of stock.

Classification

ArcherDX has classified convertible preferred stock as mezzanine equity in the consolidated balance sheets as the shares are contingently redeemable upon a deemed liquidation such as a change in control and in that event there is no guarantee that all shareholders would be entitled to receive the same form of consideration. No accretion was recorded during the years ended December 31, 2018 and 2019 as a deemed liquidation event was not considered probable.

12. Stockholders' Deficit

Common Stock

Common stockholders are entitled to one vote per share. Holders of common stock are entitled to receive dividends, when and if declared by the ArcherDX Board. The voting, dividend, and liquidation rights of the holders of the common stock are subject to, and qualified by, the rights of the holders of the preferred stock.

ArcherDX reserved shares of common stock for the following potential future issuances:

	As of December 31,	
	2018	2019
Conversion of outstanding convertible preferred stock	8,783,772	17,609,298
Conversion of contingent consideration	1,463,758	1,463,758
Shares underlying outstanding equity awards	2,553,440	4,848,949
Shares available for future equity award grants	300,333	660,520
Exercise and conversion of preferred stock warrants	159,866	615,054
Total	13,261,169	25,197,579

13. Stock-Based Compensation

ArcherDX has established the 2015 stock incentive plan for the benefit of its employees and board members. The form of awards, term, exercise price, and vesting schedule of the options are determined by ArcherDX's Compensation Committee at the time of grant. Awards may be made under the plan for 5.7 million shares of common stock. The stock options generally vest over four years with a 25% cliff vest at the first anniversary of the vesting start date.

A summary of ArcherDX's stock option activity under the 2015 stock incentive plan and related information is as follows (in thousands, except share and per share data):

	Stock Options Outstanding				
	Shares Available for Grant	Shares Subject to Options Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)	Average Intrinsic Value
Balance at January 1, 2019	292,245	1,380,554	$ 1.05	9.8	$ 588
Shares authorized	2,823,293	—			
Granted	(2,574,355)	2,574,355	$ 3.61		
Exercised	—	(79,599)	$ 1.05		
Canceled	119,537	(119,537)	$ 1.09		
Balance at December 31, 2019	660,520	3,755,773	$ 2.81	9.3	$ 6,800
Vested at December 31, 2019		540,249	$ 1.08	8.3	$ 1,915

Stock-Based Compensation Expense

The following table presents the effect of employee and non-employee related stock-based compensation expense (in thousands):

	Year Ended December 31,	
	2018	2019
Cost of precision oncology products revenue	$ 6	$ 10
Sales and marketing expense	30	95
Research and development expense	90	94
General and administrative expense	100	552
Total stock-based compensation expense	$ 226	$ 751

Future stock-based compensation for unvested options as of December 31, 2019 was approximately $3.5 million, which is expected to be recognized over a weighted-average period of 3.1 years.

Valuation of Stock Options

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

	Year Ended December 31,	
	2018	2019
Expected term (in years)	6-7	6-7
Expected volatility	80%	80%
Risk-free interest rate	2.69%	1.92%
Expected dividend yield	—	—

The determination of the fair value of stock options on the date of grant using a Black-Scholes option-pricing model is affected by the estimated fair value of ArcherDX's common stock. The fair value of the common stock is determined by ArcherDX's board of directors with the assistance of a third-party valuation specialist.

The valuation assumptions were determined as follows:

- Expected Term. The expected term represents the period that the options granted are expected to be outstanding. After the adoption of ASU 2018-07 on January 1, 2019, the expected term of stock options issued to employees and nonemployee consultants is determined using the simplified method (based on the mid-point between the vesting date and the end of the contractual term) as ArcherDX has concluded that its stock option exercise history does not provide a reasonable basis upon which to estimate expected term. Prior to the adoption of ASU 2018-07, the expected term of stock options issued to employees was determined using the simplified method.
- Expected Volatility. Given that ArcherDX's common stock is privately held, there is no active trading market for ArcherDX's common stock. ArcherDX derived the expected volatility from the average historical volatilities over a period approximately equal to the expected term of comparable publicly traded companies within its peer group that were deemed to be representative of future stock price trends as ArcherDX has limited trading history for its common stock.
- Risk-Free Interest Rate. The risk-free interest rate is based on the U.S. Treasury rate, with maturities similar to the expected term of the stock options.
- Expected Dividend Yield. ArcherDX does not anticipate paying any dividends in the foreseeable future and, therefore, uses an expected dividend yield of zero.

14. Employee Benefit Plans

ArcherDX maintains a retirement plan, which is qualified under section 401(k) of the Code for its U.S. employees. The plan allows eligible employees to defer, at the employee's discretion, pretax compensation up to the IRS annual limits. Beginning on October 1, 2019, ArcherDX matched contributions at 3% of eligible employee's compensation up to $2,000 annually. Total expense for contributions made to U.S. employees was approximately $0.1 million for the year ended December 31, 2019.

15. Net Loss Per Common Share

Basic net loss per share is calculated by dividing net loss by the weighted-average number of common shares outstanding during the period. Diluted net loss per share is computed by dividing net loss by the weighted-average number of common share equivalents outstanding using the treasury-stock method for stock options and warrants and the as-if-converted method for convertible preferred stock. As a result of ArcherDX's net losses for the periods presented, all potentially dilutive common share equivalents were considered anti-dilutive and were excluded from the computation of diluted net loss per share.

The shares outstanding at the end of the respective periods presented in the table below were excluded from the calculation of diluted net loss per share due to their anti-dilutive effect (in thousands):

	For The Year Ended December 31,	
	2018	2019
Common shares under option plans	2,593	5,194
Convertible preferred stock and warrants	8,943	18,224
Total potential dilutive shares	11,536	23,418

16. Commitments and Contingencies

Litigation

In the normal course of business, ArcherDX is a party to litigation from time to time. ArcherDX maintains insurance to cover certain actions and believes that resolution of such litigation will not have a material adverse effect on ArcherDX.

On January 27, 2020, Natera filed a lawsuit against ArcherDX in the United States District Court for the District of Delaware, alleging that ArcherDX’s products using AMP chemistry and the manufacture, use, sale, and offer for sale of such products, infringe U.S. Patent No. 10,538,814. On March 25, 2020, ArcherDX filed an answer denying Natera’s allegations and asserting certain affirmative defenses and counterclaims, including that U.S. Patent No. 10,538,814 is invalid. On April 15, 2020, Natera filed an answer denying ArcherDX’s counterclaims and filed an amended complaint alleging that ArcherDX’s products using AMP chemistry, including STRATAFIDE, PCM, LiquidPlex, ArcherMET, FusionPlex, and VariantPlex, and the manufacture, use, sale, and offer for sale of such products, infringe U.S. Patent No. 10,538,814, U.S. Patent No. 10,557,172, U.S. Patent No. 10,590,482, and U.S. Patent No. 10,597,708, each of which are held by Natera. On May 13, 2020, ArcherDX filed an answer to Natera’s amended complaint denying Natera’s allegations and asserting certain affirmative defenses and counterclaims, including that the asserted patents are invalid and not infringed. On June 3, 2020, Natera filed an answer denying ArcherDX’s counterclaims. On August 6, 2020, Natera filed another lawsuit against ArcherDX in the United States District Court for the District of Delaware alleging that ArcherDX’s products using AMP chemistry, including STRATAFIDE, PCM, LiquidPlex, ArcherMET, and VariantPlex, and the manufacture, use, sale, and offer for sale of such products, infringe U.S. Patent No. 10,731,220. ArcherDX’s answer to the new lawsuit is due on August 27, 2020. Natera seeks, among other things, damages and other monetary relief, costs and attorneys’ fees, and an order enjoining ArcherDX from further infringement of U.S. Patent Nos. 10,538,814, 10,557,172, 10,590,482, 10,597,708, and 10,731,220, or collectively, the “Natera Asserted Patents.” The litigations are ongoing and are in their early stages and ArcherDX cannot reasonably predict the outcome or loss, if any, that may result.

Vendor Collaboration Agreement

In September 2019, ArcherDX added a project agreement to an existing 2016 collaboration agreement with a vendor for the development and commercialization of sequencing-based companion diagnostics. Under the new agreement, ArcherDX will develop the companion diagnostic test kits, and the vendor will supply certain instruments, custom software, and regulatory support. The scope of the non-exclusive agreement, which has an eight-year term, includes ArcherDX’s future portfolio of companion diagnostic tests used to facilitate targeted therapy selection and monitoring of Minimal Residual Disease for the management of patients with solid tumor and blood cancers. The planned companion diagnostic tests will enable commercial laboratories, hospitals and health systems to run these assays in their local laboratories worldwide. ArcherDX paid a $2.0 million fee during 2019 following the achievement of a software implementation milestone by the vendor; ArcherDX is amortizing the fee over the term of the agreement. ArcherDX will also pay a fee capped at $4.0 million for each companion diagnostic indication, additional custom software module development, and certain hourly fees.

Royalty Agreements

In exchange for the use of certain patent rights, ArcherDX agreed to pay a royalty in the single digits on sales (as defined in the patent rights agreement). Under the agreement, the minimum net sales for the years ended December 31, 2018 and 2019 are $14.0 million and $20.6 million, respectively. Failure to meet the yearly minimum may be treated as a default and may result in termination of the agreement. ArcherDX was in compliance with the terms of the royalty agreement at December 31, 2018 and 2019.

ArcherDX also signed a non-transferable, non-exclusive license with a software provider. In exchange for the license, ArcherDX agreed to pay a fixed annual license fee of $10,000 and a low-to mid-single digit royalty on sales (as defined in the license agreement). If ArcherDX fails to perform under the agreement, the software provider may give written notice of default and allow ArcherDX 30 days to remediate the default, or the contract can be terminated. ArcherDX was in compliance with the terms of the royalty agreement at December 31, 2018 and 2019.

17. Subsequent Events

For purposes of the financial statements as of December 31, 2019 and the year then ended, ArcherDX evaluated subsequent events for recognition and measurement purposes through March 6, 2020, the date the financial statements were issued, except for Reverse Stock Split in Note 2, as to which the date is August 25, 2020, and Going Concern, Liquidity and Capital Resources in Note 2, as to which the date is November 20, 2020. ArcherDX has further evaluated subsequent events for disclosure purposes through November 20, 2020. Except as described elsewhere in these financial statements, ArcherDX has concluded that no events or transactions have occurred that require disclosure.

18. Return to Provision Adjustment

The return to provision adjustment in 2017, as discussed in Note 10, was evaluated and deemed to be immaterial.

Exhibit 99.2

ArcherDX, Inc.

Condensed Consolidated Financial Statements

As of September 30, 2019 and 2020 and
For the Three and Nine Months Ended September 30, 2019 and 2020

INDEX TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF ARCHERDX, INC.
As of September 30, 2019 and 2020 and
For the Three and Nine Months Ended September 30, 2019 and 2020

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

	December 31, 2019	September 30, 2020
ASSETS		
Current assets:		
Cash and cash equivalents	$ 59,492	$ 8,406
Accounts receivable, net	15,354	16,701
Inventories	6,002	13,161
Prepaid expenses and other current assets	2,442	6,601
Total current assets	83,290	44,869
Property and equipment, net	10,811	17,211
Right-of-use assets, net	4,813	7,168
Intangible assets, net	780	19,911
Goodwill	4,972	4,972
Other assets	2,130	878
Total assets	$ 106,796	$ 95,009
LIABILITIES, CONVERTIBLE PREFERRED STOCK, AND STOCKHOLDERS' DEFICIT		
Current liabilities		
Accounts payable	$ 5,657	$ 4,800
Accrued expenses	2,025	9,277
Accrued compensation	2,824	4,515
Lease liabilities	577	1,224
Other current liabilities	1,060	196
Deferred revenue	6,234	3,502
Total current liabilities	18,377	23,514
Long-term lease liabilities—less current portion	4,310	7,263
Long-term debt, net	28,572	61,647
Contingent consideration	8,327	76,477
Other long-term liabilities	2,295	16,267
Total liabilities	61,881	185,168
Commitments and contingencies (Note 13)		
Convertible preferred stock, $0.001 par value, 28,293,525 and 28,293,525 shares authorized, 17,609,298 and 19,076,223 shares issued and outstanding with aggregate liquidation preference of $114,397 and $177,291 as of December 31, 2019 and September 30, 2020, respectively	110,154	174,276
Stockholders' deficit:		
Common stock, $0.01 par value, 45,000,000 and 45,000,000 shares authorized, 6,454,355 and 6,683,278 shares issued and outstanding as of December 31, 2019 and September 30, 2020, respectively	65	67
Additional paid-in capital	3,939	6,803
Accumulated deficit	(69,243)	(271,305)
Total stockholders' deficit	$ (65,239)	$ (264,435)
Total liabilities, convertible preferred stock, and stockholders' deficit	$ 106,796	$ 95,009

See accompanying Notes to Condensed Consolidated Financial Statements.

ARCHERDX, INC.
Condensed Consolidated Statements of Operations and Comprehensive Loss (unaudited)
(in thousands, except share and per share data)

	Three months ended September 30,		Nine months ended September 30,	
	2019	2020	2019	2020
Revenue				
Precision oncology products	$ 6,321	$ 8,942	$ 15,796	$ 24,352
Pharma development services	8,507	7,565	19,280	23,283
Total revenue	14,828	16,507	35,076	47,635
Operating expenses				
Cost of precision oncology products	1,811	4,519	4,404	9,970
Cost of pharma development services	2,249	3,455	5,695	11,110
Sales and marketing	4,387	5,353	9,931	15,538
Research and development	11,601	20,012	20,902	55,865
General and administrative	4,221	11,732	9,930	30,250
Contingent consideration	(480)	33,197	5,026	72,302
Total operating expenses	23,789	78,268	55,888	195,035
Loss from operations	(8,961)	(61,761)	(20,812)	(147,400)
Interest expense, net	(838)	(1,869)	(1,607)	(3,867)
Other expense, net	(4)	(20,648)	(223)	(50,795)
Loss before income taxes	(9,803)	(84,278)	(22,642)	(202,062)
Income tax expense	3	—	10	—
Net loss and comprehensive loss	$ (9,806)	$ (84,278)	$ (22,652)	$ (202,062)
Basic and diluted loss per common share	$ (1.54)	$ (12.70)	$ (3.55)	$ (30.84)
Basic and diluted weighted-average common shares outstanding	6,376,976	6,634,807	6,376,898	6,552,400

See accompanying Notes to Condensed Consolidated Financial Statements.

ARCHERDX, INC.
Condensed Consolidated Statements of Convertible Preferred Stock and Stockholders' Deficit (unaudited)
For the Three and Nine Months Ended September 30, 2019 and 2020
(in thousands, except share amounts)

	Convertible Preferred Stock		Common Stock		Additional Paid-In	Accumulated	Total Stockholders'
	Shares	Amount	Shares	Amount	Capital	Deficit	Deficit
Balance—July 1, 2019	10,971,115	$ 55,319	6,376,820	$ 64	$ 3,245	$ (41,111)	$ (37,802)
Issuance of Series B convertible preferred stock for cash, net of issuance costs of $1,850	—	(5)	—	—	—	—	—
Proceeds from exercise of stock options	—	—	90	—	—	—	—
Repurchase of Series A preferred stock	—	—	(110)	—	—	—	—
Stock-based compensation expense	—	—	—	—	247	—	247
Net loss	—	—	—	—	—	(9,806)	(9,806)
Balance—September 30, 2019	10,971,115	$ 55,314	6,376,800	$ 64	$ 3,492	$ (50,917)	$ (47,361)
Balance—July 1, 2020	18,393,441	$ 115,347	6,627,583	$ 66	$ 5,329	$ (187,027)	$ (181,632)
Warrant exercise of Series B convertible preferred stock	682,782	58,929	—	—	—	—	—
Stock-based compensation expense	—	—	—	—	1,407	—	1,407
Proceeds from exercise of stock options	—	—	55,695	1	67	—	68
Net loss	—	—	—	—	—	(84,278)	(84,278)
Balance—September 30, 2020	19,076,223	$ 174,276	6,683,278	$ 67	$ 6,803	$ (271,305)	$ (264,435)

See accompanying Notes to Condensed Consolidated Financial Statements.

ARCHERDX, INC.
Condensed Consolidated Statements of Convertible Preferred Stock and Stockholders' Deficit (unaudited)
For the Three and Nine Months Ended September 30, 2019 and 2020
(in thousands, except share amounts)
(continued)

	Convertible Preferred Stock		Common Stock		Additional Paid-In Capital	Accumulated Deficit	Total Stockholders' Deficit
	Shares	Amount	Shares	Amount			
Balance—January 1, 2019	8,783,772	$ 42,180	6,375,767	$ 64	$ 3,106	$ (28,265)	$ (25,095)
Issuance of Series B convertible preferred stock for cash, net of issuance costs of $1,850	2,190,546	13,150	—	—	—	—	—
Proceeds from exercise of stock options	—	—	2,040	—	2	—	2
Repurchase of restricted stock	—	—	(1,007)	—	(1)	—	(1)
Repurchase of Series A preferred stock	(3,281)	(16)	—	—	—	—	—
Stock-based compensation expense	—	—	—	—	385	—	385
Net loss	—	—	—	—	—	(22,652)	(22,652)
Balance—September 30, 2019	10,971,037	$ 55,314	6,376,800	$ 64	$ 3,492	$ (50,917)	$ (47,361)
Balance—January 1, 2020	17,609,298	$ 110,154	6,454,355	$ 65	$ 3,939	$ (69,243)	$ (65,239)
Issuance of Series A convertible preferred stock for Baby Genes contingent consideration	624,277	4,142	—	—	—	—	—
Warrant exercise of Series A convertible preferred stock	159,866	1,051	—	—	—	—	—
Warrant exercise of Series B convertible preferred stock	682,782	58,929	—	—	—	—	—
Stock-based compensation expense	—	—	—	—	2,446	—	2,446
Proceeds from exercise of stock options	—	—	228,923	2	418	—	420
Net loss	—	—	—	—	—	(202,062)	(202,062)
Balance—September 30, 2020	19,076,223	$ 174,276	6,683,278	$ 67	$ 6,803	$ (271,305)	$ (264,435)

See accompanying Notes to Condensed Consolidated Financial Statements.

ARCHERDX, INC.
Condensed Consolidated Statements of Cash Flows (unaudited)
(in thousands)

	Nine months ended September 30, 2019	Nine months ended September 30, 2020
Cash flows from operating activities		
Net loss	$(22,652)	$(202,062)
Adjustments to reconcile net loss to net cash used in operating activities		
Depreciation and amortization	1,704	3,180
Amortization of debt issuance costs	169	524
Bad debt expense (recovery)	(28)	(20)
Stock-based compensation expense	385	2,446
Change in fair value of contingent consideration	5,026	72,302
Change in fair value of convertible preferred stock warrants	211	50,880
Changes in assets and liabilities		
Accounts receivable	(9,655)	(1,328)
Inventories	(3,466)	(7,159)
Prepaid expenses and other assets	(813)	(4,798)
Accounts payable and accrued liabilities	6,170	7,331
Lease liabilities	45	1,245
Deferred revenue	(1,348)	(2,732)
Net cash used in operating activities	(24,252)	(80,191)
Cash flows from investing activities		
Purchase of property and equipment	(5,671)	(8,662)
Purchase of intangible asset	—	(2,000)
Net cash used in investing activities	(5,671)	(10,662)
Cash flows from financing activities		
Proceeds from issuance of convertible preferred stock, net of issuance costs	13,150	—
Proceeds from borrowing under credit facility, net of issuance costs	29,125	34,680
Payment of contingent consideration	—	(10)
Proceeds from exercise of stock options	2	420
Repurchase of restricted stock	(1)	—
Proceeds from exercise of Series A preferred stock warrants	—	2
Proceeds from exercise of Series B preferred stock warrants	—	4,675
Repurchase of Series A convertible preferred stock	(16)	—
Net cash provided by (used in) financing activities	42,260	39,767
Net decrease in cash and cash equivalents	12,337	(51,086)
Cash and cash equivalents at beginning of period	9,474	59,492
Cash and cash equivalents at end of period	$ 21,811	$ 8,406
Non-cash financing activities:		
Reclassification of Series A preferred stock warrants from liabilities to convertible preferred stock upon exercise	$ —	$ 1,049
Reclassification of Series B preferred stock warrants from liabilities to convertible preferred stock upon exercise	$ —	$ 54,254
Issuance of warrant with credit facility	$ 750	$ —
Issuance of Series A preferred stock for contingent consideration	$ —	$ 4,142
Purchases of property and equipment included in accounts payable and accrued liabilities	$ —	$ 550
Purchases of intangible asset included in accounts payable and accrued liabilities	$ —	$ 15,609

Supplemental disclosure of cash flow information:

Cash paid for interest for the nine months ended September 30, 2019 was $1.3 million. Cash paid for interest for the nine months ended September 30, 2020 was $2.7 million.

See accompanying Notes to Condensed Consolidated Financial Statements.

ArcherDX, Inc.

Notes to the Unaudited Condensed Consolidated Financial Statements

1. Nature of Business

ArcherDX, Inc. (together with its consolidated subsidiary, ArcherDX, the Company, we, our, us) is a leading genomic analysis company focused on democratizing precision oncology. We were originally incorporated in January 2013, and subsequently merged into Enzymatics, Inc., or Enzymatics, in August 2013. In November 2014, the ArcherDX business unit was spun out from Enzymatics and incorporated in Delaware.

We develop and commercialize research use only, or "RUO", products, and we offer services that meet the unique needs of our customers and their clinical applications. Our RUO product portfolio consists of VariantPlex, FusionPlex, LiquidPlex and Immunoverse, which we collectively refer to as ArcherPlex. We also have in vitro diagnostic, or "IVD", products in development, STRATAFIDE and Personalized Cancer Monitoring, or PCM, which have both received Breakthrough Device designation from the U.S. Food & Drug Administration, or FDA.

Merger with Invitae Corporation

On October 2, 2020, we completed our Merger Agreement with Invitae Corporation, or "Invitae."

The aggregate consideration for the Merger Agreement, or "Merger," consisted of $325.0 million in cash (subject to closing-related adjustments based on ArcherDX's cash, debt, net working capital and other considerations at the closing of the Merger) and 30.0 million shares of Invitae Common Stock, plus up to an additional 27.0 million shares of Invitae Common Stock payable in connection with the achievement of certain milestones (the "Earnout Shares"). At the closing of the Merger, (i) each outstanding share of ArcherDX capital stock converted into the right to receive the number of shares of Invitae Common Stock and a cash payment as specified in the Merger Agreement, and, if a milestone is achieved, the applicable portion of Earnout Shares tied to such milestone, (ii) each outstanding and unexercised ArcherDX stock option converted into the right to receive a cash payment and an option to purchase shares of Invitae Common Stock as specified in the Merger Agreement, and, if a milestone is achieved, the applicable portion of Earnout Shares tied to such milestone, subject to continued service at the time of achievement of such milestone in the instance of such Earnout Shares and (iii) each unexpired, unexercised and outstanding ArcherDX warrant converted into the right to receive the number of shares of Invitae Common Stock and cash payment as specified in the Merger Agreement, and, if a milestone is achieved, the applicable portion of Earnout Shares tied to such milestone. No fractional shares were issued in connection with the Merger.

Pursuant to the Merger Agreement, shares of Invitae Common Stock issued to ArcherDX's securityholders in connection with the Merger are subject to a lock-up restriction which prevents the sale, transfer or other disposition of such shares for a period of 90 days following the closing of the Merger; provided, that as a result of a Support Agreement between Invitae and certain former stockholders of ArcherDX holding approximately 65% of the pre-Merger outstanding shares of ArcherDX in the aggregate (the "Support Agreement"), Invitae has waived the last 15 days of such 90-day period such that it shall apply for a period of only 75 days, and such former stockholders (i) are subject to certain volume limitations on resales of such shares and other transfer restrictions for days 76 through 90 following the closing of the Merger and (ii) may effect certain permitted transfers where transferees are bound by the Support Agreement.

ArcherDX, Inc.

Notes to the Unaudited Condensed Consolidated Financial Statements

The foregoing descriptions of the Merger Agreement and the Support Agreement do not purport to be complete and are qualified in their entirety by reference to the Merger Agreement and the Support Agreement, which were attached as Exhibits 2.1 and 10.4 to Invitae's Form 8-K dated October 5, 2020, respectively.

Subsequent to the October 2, 2020, merger with Invitae, ArcherDX, Inc. is now ArcherDX, LLC.

2. Summary of Significant Accounting Policies

Basis of Presentation and Consolidation

The Company's condensed consolidated financial statements include the accounts of ArcherDX, Inc. and its wholly-owned subsidiary, ArcherDX Clinical Services, Inc., formerly Baby Genes, Inc. All intercompany balances and transactions have been eliminated.

Unaudited Interim Condensed Consolidated Financial Statements

The accompanying condensed consolidated balance sheet as of September 30, 2020, the condensed consolidated statements of operations and comprehensive loss for the three and nine months ended September 30, 2019 and 2020, the condensed consolidated statements of convertible preferred stock and shareholders' deficit as of September 30, 2019 and 2020, the condensed consolidated statements of cash flows for the nine months ended September 30, 2019 and 2020, and the related interim disclosures are unaudited. The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U.S. GAAP for interim financial information. Any reference in these notes to applicable guidance is meant to refer to the authoritative U.S. GAAP as found in the Accounting Standards Codification, or ASC, and Accounting Standards Update, or ASU, of the Financial Accounting Standards Board, or FASB. These unaudited condensed consolidated financial statements include all adjustments necessary to fairly state the financial position and the results of our operations and cash flows for interim periods in accordance with U.S. GAAP. Interim results are not necessarily indicative of the results that may be expected for the full year. The accompanying unaudited interim condensed consolidated financial statements should be read in conjunction with the annual audited consolidated financial statements and notes thereto for the year ended December 31, 2019, which is included elsewhere in this registration statement.

Use of Estimates

The preparation of condensed consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and disclosures of contingent assets and liabilities at the date of the condensed consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. On an ongoing basis, we evaluate our estimates, including estimates related to revenue, the allowance for doubtful accounts, the allowance for obsolete inventory, allocation of purchase price in business combinations, contingent consideration, convertible preferred stock warrants, intangible assets impairment, and stock-based compensation. We base our estimates on historical experience and other market-specific or other relevant assumptions that we believe to be reasonable under the circumstances. Actual results could differ from those estimates.

ArcherDX, Inc.

Notes to the Unaudited Condensed Consolidated Financial Statements

We have considered potential impacts arising from the coronavirus (COVID-19) pandemic and are not presently aware of any events or circumstances that would require us to update our estimates, judgments or revise the carrying value of our assets or liabilities.

Going Concern, Liquidity and Capital Resources

We have incurred losses and negative cash flows since our inception. As of September 30, 2020, we had an accumulated deficit of $271.3 million.

We have funded our operations to date principally from the sale of convertible preferred stock, the issuance of convertible notes, entry into term loans and, to a lesser extent, products and services revenue. As of September 30, 2020, we had cash and cash equivalents of $8.4 million.

On August 10, 2020, we completed a second amendment to the credit facility agreement with Perceptive, which increases our maximum aggregate outstanding principal amount of all delayed draw loans by $40.0 million. Upon execution of this second amendment and the $20.0 million drawn immediately thereafter, our total credit facility is now $85.0 million, under which we have drawn an aggregate of $65.0 million.

On October 2, 2020, we completed our Merger Agreement with Invitae Corporation, or “Invitae.”

We have incurred substantial losses since our inception, and we expect to continue to incur losses in the near term. We believe our existing cash, cash equivalents and marketable securities as of September 30, 2020, as well as the additional access to liquidity as a result of our October 2, 2020 merger with Invitae Corporation, will be sufficient to meet our anticipated cash requirements for the foreseeable future.

The COVID-19 pandemic and the measures imposed to contain this pandemic have disrupted our business and are expected to continue to impact our business. We have considered the impact of the COVID-19 pandemic on the Company’s productivity, results of operations and financial position, and its disruption to the Company’s business and clinical programs and timelines as of September 30, 2020. The magnitude of these impacts will depend, in part, on the length and severity of the measures imposed to contain this pandemic and on the Company’s ability to conduct business in the ordinary course. We have experienced reductions to revenue due to impacts from the pandemic, primarily from disruption of our customers’ operations and supply chains.

Segment Information

Operating segments are defined as components of an enterprise about which separate discrete information is available for evaluation by the chief operating decision maker, or decision-making group, in deciding how to allocate resources and in assessing performance. We view our operations and manage our business in one operating segment, which is the business of delivering precision oncology products and pharma development services to our customers.

Fair Value of Financial Instruments

Cash and cash equivalents and liabilities for contingent consideration and convertible preferred stock warrants are carried at fair value. Financial instruments, including accounts receivable, accounts payable, and accrued expenses are carried at cost, which approximates fair value given their short-term nature (Note 4). Long-term debt is carried at cost, which approximates fair value.

ArcherDX, Inc.

Notes to the Unaudited Condensed Consolidated Financial Statements

Cash and Cash Equivalents

We consider all highly liquid investments with original maturity from the date of purchase of three months or less to be cash equivalents. Cash and cash equivalents include bank demand deposits and money market accounts that invest primarily in U.S. government-backed securities and treasuries. As of December 31, 2019 and September 30, 2020, we had cash equivalents of $43.2 million and $4.1 million, respectively.

Accounts Receivable

We provide an allowance for doubtful accounts equal to the estimated uncollectible amounts. Our estimate is based on historical collection experience, the current economic environment and a review of the current status of trade accounts receivable. It is reasonably possible that our estimate of the allowance for doubtful accounts will change and that losses ultimately incurred could differ materially from the amounts estimated in determining the allowance. As of December 31, 2019 and September 30, 2020, we recorded an allowance of $0.1 million and $0.0 million, respectively.

Concentrations of Risk

We are subject to credit risk from holding our cash and cash equivalents at one commercial bank. We limit our exposure to credit losses by investing in money market funds through a U.S. bank with high credit ratings. Our cash may consist of deposits held with banks that may at times exceed federally insured limits, however, our exposure to credit risk in the event of default by the financial institution is limited to the extent of amounts recorded on the balance sheets. We perform evaluations of the relative credit standing of these financial institutions to limit the amount of credit exposure.

We are also subject to credit risk from our accounts receivable. We grant credit in the normal course of business to customers in the U.S. and in foreign countries, predominantly in the European Union and United Kingdom. We periodically perform credit analysis and monitor the financial condition of our customers to reduce credit risk. We perform ongoing credit evaluations of our customers, but generally do not require collateral to support accounts receivable. Accounts receivable are recorded at the invoiced amount and do not bear interest.

The following table provides our revenue by geographic area based on the customers' location (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2020	2019	2020
United States	$ 4,936	$ 6,900	$13,702	$16,452
International	9,892	9,607	21,374	31,183
Total revenue	$14,828	$16,507	$35,076	$47,635

The Company's revenue is generated primarily in the U.S., European Union, and United Kingdom.

ArcherDX, Inc.

Notes to the Unaudited Condensed Consolidated Financial Statements

Significant customers are those which represent more than 10% of the Company's total revenue or accounts receivable balance at each respective balance sheet date. For each significant customer, revenue as a percentage of revenue and accounts receivable as a percentage of accounts receivable are as follows:

	Revenue for the Three Months Ended September 30,		Revenue for the Nine Months Ended September 30,		Accounts Receivable as of	
	2019	2020	2019	2020	December 31, 2019	September 30, 2020
Customer A(1)	*%	10%	*%	*%	*%	*%
Customer B(1)	51%	15%	44%	28%	41%	15%
Customer C(1)	*%	20%	*%	12%	*%	28%

(1) The country of headquarters of Customer A is the US, the country of headquarters of Customer B is Germany, and the country of headquarters for Customer C is the UK.

* less than 10%

Property and Equipment

Property and equipment are stated at cost, net of accumulated depreciation. Depreciation is provided utilizing the straight-line method over the estimated useful lives for owned assets, and the shorter of the estimated economic life or related lease terms for leasehold improvements. Maintenance and repairs are expensed as incurred.

Estimated useful lives for property and equipment are as follows:

Property and Equipment	Estimated Useful Life
Furniture and fixtures	7 years
Manufacturing and lab equipment	5 years
Computer equipment	3 years
Leasehold improvements	Lesser of estimated useful life or remaining lease term

Long-Lived Assets

We evaluate the recoverability of long-lived assets, including property and equipment and intangible assets, whenever events or changes in circumstances indicate that an asset's carrying amount may not be recoverable. In such circumstances, we look primarily to the undiscounted future cash flows compared to the carrying amount of each asset in our assessment of whether or not long-lived assets have been impaired. There were no impairments recorded for the three or nine months ended September 30, 2019 and 2020. Substantially all of the Company's long-lived assets are located in the U.S.

Goodwill

Goodwill represents the excess of the purchase price over the fair value of net assets acquired in a business combination accounted for under the acquisition method of accounting and is not amortized, but is subject to impairment testing at least annually in the fourth quarter or when a triggering event is identified that could indicate a potential impairment. We are organized as a single reporting unit, and we first perform a qualitative assessment to evaluate indicators of goodwill impairment. If it is more likely than not that an impairment exists, we perform a quantitative assessment by comparing the carrying value of the reporting unit to the fair value of the Company. There were no impairments recorded for the three or nine months ended September 30, 2019 and 2020.

ArcherDX, Inc.

Notes to the Unaudited Condensed Consolidated Financial Statements

Due to COVID-19, the Company determined a triggering event occurred in the first quarter of 2020 and performed an interim goodwill impairment evaluation to determine the fair value of the reporting unit. The evaluation determined the fair value of the reporting unit exceeded the book value of the reporting unit and, as such, no impairment was recorded.

Deferred Revenue

Advanced billings for services to customers, including billings at the initiation of a performance-based milestone, are deferred and recognized as revenue in the applicable future period when the revenue is earned. Deferred revenue was $6.2 million at December 31, 2019 and $6.2 million for September 30, 2020. Revenue of $1.3 million and $4.3 million were recognized for the three months ended September 30, 2019 and 2020, respectively, that was included in the deferred revenue balances at the beginning of the respective periods. Revenue of $3.7 million and $6.0 million were recognized for the nine months ended September 30, 2019 and 2020, respectively, that was included in the deferred revenue balances at the beginning of the respective periods.

Warrant Liability

The Company accounts for certain preferred stock warrants outstanding as a liability, in accordance with ASC 815, Derivatives and Hedging ("ASC 815"), at fair value. This liability is subject to re-measurement at each reporting period until exercised, and any change in fair value is recognized in the condensed consolidated statements of operations and comprehensive loss. As of December 31, 2019, the warrant liabilities are included in other long-term liabilities in the condensed consolidated balance sheets. There is no warrant liability as of September 30, 2019, as all warrants have been exercised.

Reverse Stock Split

On June 17, 2020, the Company effected a .7039-for-1 reverse stock split of its common and preferred stock. The par value and the authorized number of shares of the common and preferred stock were not adjusted as a result of the reverse stock split. The accompanying consolidated financial statements and notes to the financial statements give retroactive effect to the reverse stock split for all periods presented. No fractional shares were issued in connection with the reverse stock split. Any fractional share resulting from the reverse stock split was rounded down to the nearest whole share, and in lieu of any fractional shares, the Company will pay in cash to the holders of such fractional shares an amount equal to the fair value, as determined by the board of directors, of such fractional shares.

Revenue Recognition

The Company recognizes revenue when its customer obtains control of promised goods or services, in an amount that reflects the consideration which the Company expects to receive in exchange for those goods or services. To determine revenue recognition, the Company follows the following five steps: (i) identify the contract(s) with a customer; (ii) identify the performance obligations in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations in the contract; and (v) recognize revenue when (or as) the Company satisfies a performance obligation.

ArcherDX, Inc.

Notes to the Unaudited Condensed Consolidated Financial Statements

The following is a summary of the application of the respective model to each of our revenue classifications:

Overview

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

Precision Oncology Products Revenue

Precision oncology product revenue is generated from sales of our genomic products, which can either be sold alone or in combination with a service performance obligation. When sold in combination, we use our precision oncology products to provide clinical research and clinical trial services to our customers.

From the Company's inception through September 30, 2020, precision oncology product revenue has been comprised primarily of sales of our ArcherPlex RUO products for therapy optimization and PCM products for cancer monitoring. We recognize revenue on precision oncology product sales once product shipment has occurred or upon the completion of services when the product and service are a combined performance obligation. Payments from customers are typically due within 90 days from invoice date.

Product sales are recorded net of discounts and other deductions. We recognize revenue on precision oncology product sales once product shipment has occurred or upon the completion of services when the product and service are a combined performance obligation. Payments typically are due 30 days from invoice date.

Shipping and handling fees billed to customers are classified on the condensed consolidated statements of operations and comprehensive loss in revenue. The associated shipping and handling costs are classified in cost of revenue.

Pharma Development Services Revenue

Pharma development services revenue is generated primarily from services provided to biopharmaceutical companies related to companion diagnostic development, clinical research, and clinical trial services across the research, development, and commercialization phases of collaborations.

For companion diagnostic development, we collaborate with biopharmaceutical companies to develop assays for clinical utility studies and clinical trials. As part of these collaborations, we provide services related to regulatory filings with the FDA in the United States, and various international regulatory agencies, to support companion diagnostic device submissions. Under these collaborations we generate revenue from achievement of milestones, provision of ongoing support, and related pass-through costs and fees. We generally have distinct performance obligations for development milestones related to our development of a companion diagnostic device. We use a cost plus a margin approach to estimate the standalone value of our companion diagnostic development service performance obligations. Revenue is recognized over time using input and output methods based on our surveys of performance completed to date toward each milestone including labor hours expended, tests processed or time elapsed.

Clinical research activities and clinical trial service revenue are generated primarily from customer assay design services and sample processing activities, excluding the product component of sample processing activities. Revenue is recognized as test samples are processed or scope of work is completed, based on contracted agreements with biopharmaceutical companies.

ArcherDX, Inc.

Notes to the Unaudited Condensed Consolidated Financial Statements

In November 2017, we signed our first companion diagnostic contract. Under the $11.3 million time and materials arrangement, we were developing an oncology companion diagnostic device for use in the customer's clinical trials of its investigational drug. Upon contract signing, we received $2.0 million of the contract price as an upfront deposit that was recorded as deferred revenue and is creditable toward the final contract billings. For this companion diagnostic contract, we recognized revenue as time and materials expenses were incurred and charged to the third party on a monthly basis. On April 30, 2019, the customer notified the Company that the customer's related clinical drug trial had not met its primary endpoint for drug efficacy, and that the customer was terminating its contract with the Company. We quantified and offset the final study costs and wind-down costs of $1.4 million against the $2.0 million upfront deposit received from the customer in November 2017. We refunded $0.6 million of unapplied deposit to the customer in June 2019.

Our Other Companion Diagnostic Contracts

During the nine months ended September 30, 2020, we signed eight additional companion diagnostic contracts. The Company's companion diagnostic contracts consist primarily of milestone-based payments along with annual fees and marked-up pass-through costs. The arrangements are treated as short-term contracts for revenue recognition purposes because they allow termination of the agreements by the customers with 30 to 120 days' written notice without a termination penalty. Upon termination, customers are required to pay for the proportion of services provided under milestones that were in progress. We recognize revenue in an amount that reflects the consideration which we expect to receive in exchange for those goods or services after consideration of the short-term nature of our contracts. We recognize revenue over time based on the progress made toward achieving the performance obligation, utilizing both input and output methods, depending on the performance obligation, including labor hours expended, tests processed, or time elapsed, that measure our progress toward the achievement of the milestone. Milestones are billed at 30%-50% upon milestone initiation and are recorded as deferred revenue until earned; once a milestone is completed, the remaining 50%-70% of the milestone is billed to the customer. Unbilled revenue is a contract receivable that is included in net accounts receivable on the condensed consolidated balance sheets; unbilled revenue was $6.5 million and $4.0 million as of December 31, 2019 and September 30, 2020, respectively.

Cost of Revenue

Cost of Precision Oncology Products Revenue

Cost of precision oncology products generally consists of the cost of materials and consumables, personnel-related expenses (comprised of salaries, benefits, bonuses, and share-based compensation), shipping and handling, royalties, professional services, equipment and allocated overhead costs associated with the manufacturing of products. Allocated overhead costs include allocated occupancy costs and information technology costs.

ArcherDX, Inc.

Notes to the Unaudited Condensed Consolidated Financial Statements

Cost of Pharma Development Services

Cost of pharma development services generally consists of personnel-related expenses (comprised of salaries, benefits, bonuses, and share-based compensation), the cost of consumables, equipment expenses associated with sample processing, costs paid to contract research organizations for lab services and clinical trial support, and allocated overhead costs. Allocated overhead costs include allocated occupancy costs and information technology costs. Costs associated with processing samples are recorded regardless of whether revenue was recognized with respect to the performance obligation. Additional costs associated with companion diagnostic development services for biopharmaceutical companies also include, but are not limited to, contractors and professional services, regulatory fees, and commercialization fees.

Costs incurred for process development, feasibility, or analytical and clinical validation activities that would have otherwise been incurred for product development for STRATAFIDE and PCM IVD are reported as research and development expenses.

Research and Development

We are currently conducting research and development activities for product and service offerings across therapy optimization and cancer monitoring. Expenditures made for research and development are charged to expense as incurred and include, but are not limited to, personnel-related expenses (comprised of salaries, benefits, bonuses, and share-based compensation), laboratory supplies, biorepository and sequencing costs, consulting services, including, but not limited to, statistical analysis, engineering, and regulatory services, and allocated overhead costs. Allocated overhead costs include allocated occupancy costs and information technology costs.

A component of our internal research and development expenses related to process development, feasibility, or analytical and clinical validation activities also meet the performance obligations under contracts to provide companion diagnostic development services.

Recently Adopted Accounting Pronouncements

The Company adopted ASU 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* effective January 1, 2020. The ASU sets forth a “current expected credit loss” (“CECL”) model which requires the Company to measure all expected credit losses for financial instruments held at the reporting date based on historical experience, current conditions and reasonable supportable forecasts. This replaces the existing incurred loss model and is applicable to the measurement of credit losses on financial assets measured at amortized cost, available-for-sale debt securities and applies to certain off-balance sheet credit exposures. The adoption of this ASU did not have a material impact on the Company’s condensed consolidated financial statements.

The Company adopted ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement* effective January 1, 2020. The ASU makes a number of changes meant to add, modify or remove certain disclosure requirements associated with the movement amongst, or hierarchy associated with, Level 1, Level 2 and Level 3 fair value measurements. The adoption of this ASU did not have a material impact on the Company’s condensed consolidated financial statements.

Recently Issued Accounting Pronouncements Not Yet Adopted

In December 2019, the FASB issued ASU No. 2019-12, *Income Taxes (Topic 740)*: Simplifying the Accounting for Income Taxes, which is intended to simplify various aspects related to accounting for income taxes. ASU No. 2019-12 removes certain exceptions to the general principles in ASC 740 and also clarifies and amends existing guidance to improve consistent application. This guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020, with early adoption permitted. The Company is currently evaluating the impact of this standard on its condensed consolidated financial statements.

ArcherDX, Inc.

Notes to the Unaudited Condensed Consolidated Financial Statements

3. Business Combination

On October 2, 2018, the Company purchased all issued and outstanding shares of common stock of Baby Genes for 1,018,941 shares of our Series A convertible preferred stock, with up to an additional 1,463,758 shares of our Series A convertible preferred stock to be issued upon the achievement of certain revenue-based milestones by Baby Genes in 2019 and 2020.

The contingent consideration included in the Baby Genes purchase price stipulated certain revenue thresholds during the two calendar years following the acquisition. If the Company completes a qualified initial public offering before the end of Year 2, then a portion of the consideration is automatically earned. The contingent consideration is recorded as a liability due to the liquidation preference provisions of the underlying Series A convertible preferred stock, and changes in the fair value are recorded as a change in fair value of contingent consideration in the condensed consolidated statements of operations and comprehensive loss.

In February 2020, the Company issued 624,277 shares of Series A convertible preferred stock, with a fair value of $4.1 million, to the former Baby Genes shareholders for the achievement of the Year 1 revenue thresholds. As of December 31, 2019, the fair value of the Year 1 contingent consideration was $4.2 million and the Year 2 contingent consideration was $4.2 million. During the first quarter of 2020, the Company issued 624,277 shares of Series A preferred stock to settle the Year 1 contingent consideration. As of September 30, 2020, the remaining fair value of the Year 2 contingent consideration was $76.5 million and is included in other long-term liabilities in the condensed consolidated balance sheets.

4. Fair Value Measurements

Fair value is defined as the exchange price that would be received to sell an asset or paid to transfer a liability (at exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The three levels of inputs that may be used to measure fair value include:

Level 1: Quoted prices in active markets for identical assets or liabilities. Our Level 1 assets consist of money market accounts. We do not have Level 1 liabilities.

Level 2: Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities in active markets or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. We do not have Level 2 assets or liabilities.

Level 3: Unobservable inputs that are supported by little or no market activity. We do not have Level 3 assets. Our Level 3 liability consists of Series A and B convertible preferred stock warrants and contingent consideration.

ArcherDX, Inc.

Notes to the Unaudited Condensed Consolidated Financial Statements

The following table identifies our assets and liabilities that were measured at fair value on a recurring basis (in thousands):

	Level 1	Level 2	Level 3
December 31, 2019			
Assets:			
Money market accounts	$43,154	$ —	$ —
Liabilities:			
Warrant liabilities	$ —	$ —	$ (2,295)
Contingent consideration	$ —	$ —	$ (8,327)
September 30, 2020			
Assets:			
Money market accounts	$ 4,083	$ —	$ —
Liabilities:			
Contingent consideration	$ —	$ —	$(76,477)

The Company estimates the fair value of warrants using option-pricing models with the assistance of a third-party valuation specialist. The fair value of the shares to be issued as contingent consideration for Year 2 was estimated using an income approach involving Monte Carlo simulation. The assumptions we use in the valuation models are based on future expectations combined with management's judgment. As of December 31, 2019, we included a 20% IPO probability in our valuation models. For the valuation models used for the quarter ended March 31, 2020, in evaluating our IPO probability, management took into consideration the positive steps taken by the Company in progressing towards an IPO, while also taking into account the unprecedented market volatility and short- and long-term economic uncertainty associated with the COVID-19 pandemic. At that date, the COVID-19 related factors significantly reduced the likelihood that a public offering would be a viable financing strategy for the Company. The balance of these considerations led management to include a 20% IPO probability as of March 31, 2020.

For the valuation models used for the quarter ended June 30, 2020, management considered its entry into an Agreement and Plan of Merger and Plan of Reorganization (the "Merger Agreement") with Invitae, and included a 90% acquisition probability in our valuation models.

For the valuation models used for the quarter ended September 30, 2020, management considered its entry into the Merger Agreement with Invitae, and included a 100% acquisition probability in our valuation models, given we completed the Merger Agreement on October 2, 2020.

ArcherDX, Inc.

Notes to the Unaudited Condensed Consolidated Financial Statements

The following table presents a reconciliation of the Company's financial liabilities measured at fair value as of September 30, 2020 using significant unobservable inputs (Level 3), and the change in fair value recorded in other income, net in the condensed consolidated statements of operations and comprehensive loss (in thousands):

	Convertible Preferred Stock Warrants	Contingent Consideration
Balance as of December 31, 2019	$ 2,295	$ 8,327
Issuance of Series A preferred stock for contingent consideration	—	(4,142)
Issuance of Series B warrants	2,128	
Cash payment for contingent consideration	—	(10)
Exercise of Series A preferred stock warrants	(1,049)	—
Exercise of Series B preferred stock warrants	(54,254)	
Change in fair value	50,880	72,302
Balance as of September 30, 2020	$ —	$ 76,477

There were no transfers between the Level 1 and Level 2 categories or into or out of the Level 3 category during the three and nine months ended September 30, 2020.

5. Inventories

Inventories consist of the following (in thousands):

	December 31, 2019	September 30, 2020
Raw materials	$ 3,640	$ 6,390
Work in process	1,412	5,902
Finished goods	950	869
Total inventories	$ 6,002	$ 13,161

Inventory obsolescence charges were immaterial and $0.1 million for the three months ended September 30, 2019 and September 30, 2020, respectively.

Inventory obsolescence charges were immaterial and $0.3 million for the nine months ended September 30, 2019 and September 30, 2020, respectively.

ArcherDX, Inc.

Notes to the Unaudited Condensed Consolidated Financial Statements

6. Property and Equipment

Property and equipment are summarized as follows (in thousands):

	December 31, 2019	September 30, 2020
Manufacturing and lab equipment	$ 12,125	$ 17,620
Office equipment	1,490	2,718
Leasehold improvements	421	1,559
Construction in progress	405	1,666
Property and equipment, gross	14,441	23,563
Less accumulated depreciation	(3,630)	(6,352)
Property and equipment, net	$ 10,811	$ 17,211

Depreciation expense was $0.5 million and $1.1 million, for the three months ended September 30, 2019 and September 30, 2020, respectively.

Depreciation expense was $1.0 million and $2.9 million, for the nine months ended September 30, 2019 and September 30, 2020, respectively.

7. Leases for Facilities and Equipment

At the inception of an arrangement, we determine whether the arrangement is or contains a lease based on the unique facts and circumstances. Most leases with a term greater than one year are recognized on the balance sheet as right-of-use assets, lease liabilities and, if applicable, long-term lease liabilities. We elected not to recognize on the balance sheet leases with terms of one year or less. Lease liabilities and their corresponding right-of-use assets are recorded based on the present value of lease payments over the expected lease term. The interest rate implicit in lease contracts is typically not readily determinable. As such, we utilize the appropriate incremental borrowing rate, which is the rate incurred to borrow on a collateralized basis over a similar term at an amount equal to the lease payments in a similar economic environment. Certain adjustments to the right-of-use asset may be required for items such as incentives received.

Our facilities operating leases have lease and non-lease components, which we have elected to separate and exclude from the measurement of the lease liabilities. The lease component results in a right-of-use asset being recorded on the condensed consolidated balance sheet and amortized as lease expense on a straight-line basis to the condensed consolidated statement of operations, and a lease liability, which is the net present value of the lease payments over the expected term.

We lease all of our office facilities. Leases with an initial term of 12 months or less are not recorded on the balance sheet; we recognize lease expense for these leases on a straight-line basis over the lease term. Most leases include one or more options to renew. The exercise of lease renewal options is at our sole discretion; a lease renewal option is included in the lease liability when it is likely we would exercise the option. Our lease agreements do not contain any material residual value guarantees or material restrictive covenants.

We also have an operating lease for certain office equipment.

ArcherDX, Inc.

Notes to the Unaudited Condensed Consolidated Financial Statements

The components of lease expense and related cash flows were as follows (in thousands):

	Three Months Ended September 30, 2020	Nine Months Ended September 30, 2020
Operating Lease cost		
Operating lease cost	$ 544	$ 1,494
Variable lease cost	322	578
Operating lease expense	$ 866	$ 2,072
Short-term lease rent expense	$ 54	$ 109
Total lease cost	$ 920	$ 2,181
Operating cash outflows from operating leases	$ 548	$ 1,291

The weighted-average remaining lease term and weighted-average discount rate of operating leases were as follows:

	September 30, 2020
Weighted-average remaining lease term (years)	4.7
Weighted-average discount rate	8%

Future minimum commitments due under these lease agreements as of September 30, 2020 are as follows (in thousands):

Year Ending December 31,	
Remaining in 2020	$ 418
2021	2,344
2022	2,228
2023	2,157
2024	2,185
Thereafter	1,457
Present value adjustment	(1,956)
Tenant improvement allowance receivable	(346)
Total present value of lease payments	$ 8,487

8. Convertible Notes Payable and Other Debt

Credit Facility

On May 10, 2019, the Company entered into a $45 million credit facility with Perceptive, of which $30 million was immediately drawn as a term loan by the Company. In conjunction with the credit facility, Perceptive received a warrant to purchase 455,188 shares of Series B convertible preferred stock, with a fair value of $0.8 million. The initial recognition of the warrant liability resulted in a discount to the loan which is being amortized to interest expense over the term of the credit facility.

ArcherDX, Inc.

Notes to the Unaudited Condensed Consolidated Financial Statements

In April 2020, in connection with entering into the first amendment to the credit facility agreement, the Company issued to Perceptive a delayed draw date warrant for 227,594 Series B shares at an exercise price of $6.85 per share.

Under the terms of the credit facility agreement, the Company drew the remaining $15 million delayed draw loan facility in full in June 2020 following our achievement of designated revenue milestones. This brought our total outstanding debt with Perceptive to $45 million as of June 30, 2020.

On August 10, 2020, we completed a second amendment to the credit facility agreement with Perceptive. This amendment increased our maximum aggregate outstanding principal amount of all delayed draw loans by $40 million, up to $55 million. At the execution of the agreement, we immediately drew $20 million. This brought our total outstanding debt with Perceptive to $65 million as of September 30, 2020.

The outstanding principal amount of the debt facility accrues interest at an annual rate equal to the Applicable Margin of 8.25% plus the greater of (a) one-month LIBOR or (b) two and three quarters percent (2.75%) per annum. If one-month LIBOR ceases to exist in 2021, the Wall Street Journal Prime Rate will be used as the alternate rate. At September 30, 2020, the interest rate was 11%. Interest is payable monthly in arrears. At closing, the Company incurred a nonrefundable closing fee of $0.7 million, which, along with debt issuance fees of $0.2 million, the initial fair value of the 2019 warrant of $0.8 million and the initial fair value of the 2020 warrant of $2.1 million, is amortized to interest expense over the remaining term of the debt.

The credit facility is collateralized by the Company’s tangible and intangible assets. The debt financing proceeds are to be used for general corporate purposes, including the refinancing of existing debt and the payment of fees and expenses associated with the negotiation, execution and implementation of the credit facility. The credit facility agreement contains certain restrictive covenants, including monthly and quarterly financial covenants tied to the Company’s cash balance and 12-month revenues; the Company was in compliance with all covenants as of December 31, 2019 and September 30, 2020. The credit facility matures on May 10, 2023.

On September 17, 2020, Perceptive exercised 682,782 warrants that were issued in connection with our credit facility agreement to purchase Series B shares at an exercise price of $6.85 per share.

On October 2, 2020, we completed our Merger Agreement with Invitae. As a result of the merger, our debt with Perceptive was paid in full.

ArcherDX, Inc.

Notes to the Unaudited Condensed Consolidated Financial Statements

9. Convertible Preferred Stock

The Company's convertible preferred stock is comprised of the following series (in thousands, except share amounts):

	Series A Convertible Preferred Stock		Series B Convertible Preferred stock		Series C Convertible Preferred stock	
	Shares	Amount	Shares	Amount	Shares	Amount
Balance—January 1, 2019	8,783,772	$42,180	—	$ —	—	$ —
Issuance of Series B convertible preferred stock for cash, net of issuance costs of $1,850			2,190,546	13,150		
Repurchase of Series A convertible preferred stock	(3,281)	(16)	—	—	—	—
Balance—September 30, 2019	8,780,491	$42,164	2,190,546	$13,150	—	$ —
Balance—January 1, 2020	8,780,491	42,164	2,190,546	13,150	6,638,261	54,840
Exercise of Series A convertible preferred stock warrants	159,866	1,051	—	—	—	—
Exercise of Series B convertible preferred stock warrants	—	—	682,782	58,929	—	—
Issuance of Series A convertible preferred stock for contingent consideration	624,277	4,142	—	—	—	—
Balance—September 30, 2020	9,564,634	$47,357	2,873,328	$72,079	6,638,261	$54,840

The Company's convertible preferred stock consisted of the following:

	September 30, 2020			
	Shares Authorized	Shares Issued and Outstanding	Aggregate Liquidation Preference	Net Carrying Value
			(in thousands)	
Series A	14,780,767	9,564,634	$ 48,362	$ 47,357
Series B	4,082,031	2,873,328	73,929	72,079
Series C	9,430,727	6,638,261	55,000	54,840
Total convertible preferred stock	28,293,525	19,076,223	$ 177,291	$174,276

The holders of the convertible preferred stock have the following rights and preferences:

Conversion

Each share of convertible preferred stock will be convertible, at the option of the holder thereof, at any time and from time to time, and without the payment of additional consideration by the holder thereof, or automatically upon a Qualified IPO with gross proceeds of at least $50 million and a price per common share of at least $12.43, into such number of fully paid and non- assessable shares of common stock as is determined by dividing the original issue price by the convertible preferred stock conversion price in effect at the time of conversion. The convertible preferred stock conversion price will initially be equal to the original issue price for the convertible preferred stock. Such initial convertible preferred stock conversion price, and the rate at which shares of convertible preferred stock may be converted into shares of common stock, is subject to adjustment.

ArcherDX, Inc.

Notes to the Unaudited Condensed Consolidated Financial Statements

Dividends

The Company will not declare, pay or set aside any dividends on shares of any other class or series of capital stock of the Company (other than dividends on shares of common stock payable in shares of common stock) unless the holders of the convertible preferred stock then outstanding will first receive, or simultaneously receive, out of funds legally available therefor, a dividend on each outstanding share of convertible preferred stock in an amount in cash equal to 6% of the respective original issue price per annum on each outstanding share of such convertible preferred stock calculated from the date of issuance of such share of convertible preferred stock. The foregoing dividends will not be cumulative and will be paid when, as and if declared by the board of directors of the Company, provided that if the foregoing dividends are not declared in any year, the right to receive such dividends will terminate and not carry forward into the next year.

Liquidation Preference

In the event of any liquidation event, including upon a change in control of the Company, the holders of shares of convertible preferred stock then outstanding will be entitled to be paid out of the assets of the Company available for distribution to its stockholders before any payment will be made to the holders of common stock by reason of their ownership thereof, an amount per share equal to the greater of (i) the original issue price, plus any dividends declared but unpaid thereon, or (ii) such amount per share as would have been payable had all shares of convertible preferred stock been converted into common stock immediately prior to such liquidation event. If upon any such liquidation event, the assets of the Company available for distribution to its stockholders will be insufficient to pay the holders of shares of convertible preferred stock the full amount to which they will be entitled, the holders of shares of convertible preferred stock will share ratably in any distribution of the assets available for distribution in proportion to the respective amounts which would otherwise be payable in respect of the shares held by them upon such distribution if all amounts payable on or with respect to such shares were paid in full.

Voting

On any matter presented to the stockholders of the Company for their action or consideration at any meeting of stockholders of the Company (or by written consent of stockholders in lieu of meeting), each holder of outstanding shares of convertible preferred stock will be entitled to cast the number of votes equal to the number of whole shares of common stock into which the shares of convertible preferred stock held by such holder are convertible as of the record date for determining stockholders entitled to vote on such matter. Holders of convertible preferred stock will vote together with the holders of common stock as a single class. In addition, holders of convertible preferred stock voting together in a single class are entitled to elect three directors to the board of directors of the Company. The holders of convertible preferred stock also are entitled to vote together as a single class on certain protective matters including the payment of dividends, and the issuance of debt or an additional class of stock.

Classification

We have classified convertible preferred stock as mezzanine equity in the condensed consolidated balance sheets as the shares are contingently redeemable upon a deemed liquidation such as a change in control and in that event there is no guarantee that all shareholders would be entitled to receive the same form of consideration. No accretion was recorded during the three and nine months ended September 30, 2019 and September 30, 2020, respectively, as a deemed liquidation event was not considered probable.

Merger with Invitae

On October 2, 2020, immediately prior to the merger, our convertible preferred stock converted to common stock.

ArcherDX, Inc.

Notes to the Unaudited Condensed Consolidated Financial Statements

Preferred Stock Warrants

	Equity Upon Exercise	Exercise Price	Expiration Date	December 31, 2019	September 30, 2020
Warrants Issued in 2018	Series A Preferred	$ 0.01	3/5/28	159,866	—
Warrants Issued in 2019	Series B Preferred	6.85	5/10/26	455,188	455,188
Warrants Issued in 2020	Series B Preferred	6.85	4/27/27	—	227,594
Total Warrants				615,054	682,782

	Warrants	Weighted Average Stock Price	Weighted Average Remaining Contractual Life (in Years)
Balance—January 1, 2020	615,054	$ 5.07	6.8
Issued	227,594	6.85	6.8
Exercised	(842,648)	5.14	
Balance—September 30, 2020	—	—	—

10. Stockholders' Deficit

Common Stock

Common stockholders are entitled to one vote per share. Holders of common stock are entitled to receive dividends, when and if declared by the Board. The voting, dividend, and liquidation rights of the holders of the common stock are subject to, and qualified by, the rights of the holders of the preferred stock.

We reserved shares of common stock for the following potential future issuances:

	As of December 31, 2019	As of September 30, 2020
Conversion of outstanding convertible preferred stock	17,609,298	19,076,223
Conversion of convertible preferred stock issuable for contingent consideration	1,463,758	837,464
Shares underlying outstanding equity awards	4,848,949	3,744,346
Shares available for future equity award grants	660,520	444,054
Exercise and conversion of convertible preferred stock warrants	615,054	—
Total	25,197,579	24,102,087

ArcherDX, Inc.

Notes to the Unaudited Condensed Consolidated Financial Statements

11. Stock-Based Compensation

The Company has established the 2015 stock incentive plan for the benefit of its employees and board members. The form of awards, term, exercise price, and vesting schedule of the options are determined by the Company's Compensation Committee at the time of grant. Awards may be made under the plan for 5.7 million shares of common stock. The stock options generally vest over four years with a 25% cliff vest at the first anniversary of the vesting start date.

A summary of the Company's stock option activity under the 2015 stock incentive plan and related information is as follows (in thousands, except share and per share data):

		Stock Options Outstanding			
	Shares Available for Grant	Shares Subject to Options Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)	Average Intrinsic Value
Balance at December 31, 2019	660,520	3,755,773	$ 2.81	9.3	$ 6,800
Shares authorized	—	—			
Granted	(869,909)	869,909	$ 4.62		
Exercised		(227,893)	$ 1.85		
Canceled	653,443	(653,443)	$ 3.20		
Balance at September 30, 2020	444,054	3,744,346	$ 3.22	8.9	$ 5,090
Vested at September 30, 2020		958,308	$ 1.80	8.3	$ 2,623

Stock-Based Compensation Expense

The following table presents the effect of employee and non-employee related stock-based compensation expense (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2020	2019	2020
Cost of precision oncology products revenue	$ —	$ —	$ 1	$ —
Sales and marketing expense	9	34	33	86
Research and development expense	20	62	49	169
General and administrative expense	218	1,311	302	2,191
Total stock-based compensation expense	$ 247	$ 1,407	$ 385	$ 2,446

Future stock-based compensation for unvested options as of September 30, 2020 was approximately $6.4 million, which is expected to be recognized over a weighted-average period of 2.9 years.

ArcherDX, Inc.

Notes to the Unaudited Condensed Consolidated Financial Statements

Valuation of Stock Options

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

	Nine Months Ended September 30,	
	2019	2020
Expected term (in years)	6-7	6-7
Expected volatility	80%	80%
Risk-free interest rate	1.92%	1.02%
Expected dividend yield	—	—

The determination of the fair value of stock options on the date of grant using a Black-Scholes option-pricing model is affected by the estimated fair value of the Company’s common stock.

The valuation assumptions were determined as follows:

- Expected Term. The expected term represents the period that the options granted are expected to be outstanding. The expected term of stock options issued to employees and nonemployee consultants is determined based on the mid-point between the vesting date and the end of the contractual term, as the Company concluded that its stock option exercise history does not provide a reasonable basis upon which to estimate expected term.
- Expected Volatility. Given that the Company’s common stock is privately held, there is no active trading market for the Company’s common stock. The Company derived the expected volatility from the average historical volatilities over a period approximately equal to the expected term of comparable publicly traded companies within its peer group that were deemed to be representative of future stock price trends as the Company has limited trading history for its common stock.
- Risk-Free Interest Rate. The risk-free interest rate is based on the U.S. Treasury rate, with maturities similar to the expected term of the stock options.
- Expected Dividend Yield. The Company does not anticipate paying any dividends in the foreseeable future and, therefore, uses an expected dividend yield of zero.

12. Net Loss Per Common Share

Basic net loss per share is calculated by dividing net loss by the weighted-average number of common shares outstanding during the period. Diluted net loss per share is computed by dividing net loss by the weighted-average number of common share equivalents outstanding using the treasury-stock method for stock options and warrants and the as-if-converted method for convertible preferred stock. As a result of our net losses for the periods presented, all potentially dilutive common share equivalents were considered anti-dilutive and were excluded from the computation of diluted net loss per share.

ArcherDX, Inc.

Notes to the Unaudited Condensed Consolidated Financial Statements

The following table provides the calculation of basic and diluted earnings per common share (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2020	2019	2020
Numerator:				
Net loss	$ (9,806)	$ (84,278)	$ (22,652)	$ (202,062)
Denominator:				
Denominator for basic EPS—Weighted average shares outstanding	6,376,976	6,634,807	6,376,898	6,552,400
Dilutive securities				
Denominator for diluted EPS—Weighted average shares outstanding	6,376,976	6,634,807	6,376,898	6,552,400
Earnings per share:				
Basic and diluted EPS	$ (1.54)	$ (12.70)	$ (3.55)	$ (30.84)

The table below provides potentially dilutive securities not included in the calculation of the diluted net loss per common share because to do so would be anti-dilutive:

	Nine months ended September 30,	
	2019	2020
Conversion of outstanding convertible preferred stock	10,971,037	19,076,223
Shares of underlying outstanding equity awards	2,136,668	3,744,346
Exercise and conversion of convertible preferred stock warrants	615,054	—
Total	13,722,759	22,820,569

13. Commitments and Contingencies

Litigation

In the normal course of business, we are a party to litigation from time to time. We maintain insurance to cover certain actions and believes that resolution of such litigation will not have a material adverse effect on the Company.

On January 27, 2020, Natera filed a lawsuit against us in the United States District Court for the District of Delaware, alleging that our products using AMP chemistry and the manufacture, use, sale, and offer for sale of such products, infringe U.S. Patent No. 10,538,814. On March 25, 2020, we filed an answer denying Natera's allegations and asserting certain affirmative defenses and counterclaims, including that U.S. Patent No. 10,538,814 is invalid and not infringed. On April 15, 2020, Natera filed an answer denying our counterclaims and filed an amended complaint alleging that our products using AMP chemistry, including STRATAFIDE, PCM, LiquidPlex, ArcherMET, FusionPlex, and VariantPlex, and the manufacture, use, sale, and offer for sale of such products, infringe U.S. Patent No. 10,538,814, U.S. Patent No. 10,557,172, U.S. Patent No. 10,590,482, and U.S. Patent No. 10,597,708 (collectively, the "Natera

ArcherDX, Inc.

Notes to the Unaudited Condensed Consolidated Financial Statements

Asserted Patents"), each of which are held by Natera. Natera seeks, among other things, damages and other monetary relief, costs and attorneys' fees, and an order enjoining us from further infringement of the Natera Asserted Patents. On May 13, 2020, we filed an answer to Natera's amended complaint denying Natera's allegations and asserting certain affirmative defenses and counterclaims, including that the Natera Asserted Patents are invalid and not infringed. On June 3, 2020, Natera filed an answer denying our counterclaims. On June 4, 2020, we filed a motion seeking dismissal of Natera's infringement claims against STRATAFIDE, PCM, and ArcherMET, and for a judgment that U.S. Patent No. 10,538,814, U.S. Patent No. 10,557,172, and U.S. Patent No. 10,590,482, are invalid. The litigation is ongoing and is in its early stages and we cannot reasonably predict the outcome or loss, if any, that may result.

Vendor Agreement

In September 2020, we entered into a project agreement for the development and commercialization of sequencing-based companion diagnostics. Under this agreement, we will develop a portfolio of companion diagnostic test kits, and the vendor will supply certain instruments, customer software, and regulatory support. The scope of this 15-year non-exclusive agreement, includes our future portfolio of companion diagnostic tests that will enable commercial laboratories, hospitals, and health systems to run our assays in their local laboratories worldwide. We recognized an intangible asset for the right to develop and commercialize on the vendor's technology, which is amortized over 15 years, the estimated economic life of the underlying asset. We may also make milestone payments for future development activities over the life of this arrangement. At September 30, 2020, the intangible asset was $19.4 million.

Royalty Agreements

In exchange for the use of certain patent rights, we agreed to pay a royalty in the single digits as a percentage of sales (as defined in the patent rights agreement). Under the agreement, the minimum net sales for the years ended December 31, 2018 and 2019 are $14.0 million and $20.6 million, respectively. Failure to meet the yearly minimum may be treated as a default and may result in termination of the agreement. In addition to the royalty on sales, we have set fixed royalty payments totaling $4.0M over the next five years. We were in compliance with the terms of the royalty agreement at December 31, 2019 and September 30, 2020.

We also signed a non-transferable, non-exclusive license with a software provider. In exchange for the license, we agreed to pay a fixed annual license fee of $10,000 and a low- to mid-single digit royalty on sales (as defined in the license agreement). If we fail to perform under the agreement, the software provider may give written notice of default and allow us 30 days to remediate the default, or the contract can be terminated. We were in compliance with the terms of the royalty agreement as of December 31, 2019 and September 30, 2020.

14. Subsequent Events

For purposes of the financial statements as of September 30, 2020 and the three and nine months then ended, the Company evaluated subsequent events for recognition and measurement purposes through November 20, 2020, the date the condensed consolidated financial statements were issued. Except as described elsewhere in these financial statements, the Company has concluded that no events or transactions have occurred that require disclosure.

Exhibit 99.3

UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION

The following unaudited pro forma condensed combined financial statements are based on the historical consolidated financial statements of Invitae, Singular Bio, Inc. (“Singular Bio”), Jungla, Inc. (“Jungla”), and ArcherDX, and are adjusted to give effect to the June 2019 acquisition of Singular Bio, the July 2019 acquisition of Jungla, as well as the October 2020 merger with ArcherDX, referred herein as the merger or the merger transactions, but do not adjust for non-significant acquisitions. In order to finance the merger, Invitae entered into a Credit Agreement and Guaranty (the “debt financing”) and a Securities Purchase Agreement for the sale of shares of Invitae common stock (the “equity financing”), both of which closed at the same time as the merger.

The following unaudited pro forma condensed combined balance sheet as of September 30, 2020 is based on Invitae’s historical unaudited condensed consolidated balance sheet and ArcherDX’s unaudited condensed consolidated balance sheet as of September 30, 2020. The unaudited pro forma condensed combined balance sheet gives effect to the merger, debt financing, and equity financing (the “transactions”) as if each had occurred on September 30, 2020 and includes all adjustments that are directly attributable to the transactions and are factually supportable. The unaudited pro forma condensed combined balance sheet includes Singular Bio and Jungla financial information as both transactions were reflected in Invitae’s balance sheet at September 30, 2020, included in Invitae’s Quarterly Report on Form 10-Q filed with the SEC on November 5, 2020.

The following unaudited pro forma condensed combined statement of operations for the year ended December 31, 2019 combine the historical statement of operations of Invitae, ArcherDX, Singular Bio, and Jungla, adjusted to reflect Invitae’s acquisition of ArcherDX, Singular Bio, and Jungla as if they had occurred on January 1, 2019. The unaudited pro forma condensed combined statement of operations for the nine months ended September 30, 2020 combines the historical statements of operations of Invitae and ArcherDX, adjusted to reflect the transaction as if it occurred on January 1, 2019. Singular Bio and Jungla financial information are already reflected in Invitae’s statement of operations for the nine months ended September 30, 2020, included in Invitae’s Quarterly Report on Form 10-Q filed with the SEC on November 5, 2020.

The historical consolidated statements of operations have been adjusted in the unaudited pro forma condensed combined statements of operations to give effect to pro forma events that are: directly attributable to the acquisitions and transactions, factually supportable, and expected to have a continuing impact on the combined results following the acquisitions and transactions.

The unaudited pro forma condensed combined financial statements have been prepared for illustrative purposes only and are not intended to represent or be indicative of the consolidated financial results of operations in future periods or the results that actually would have been achieved if Invitae, Singular Bio, Jungla, and ArcherDX had been a combined company during the periods presented. The actual results of operations may differ significantly from the pro forma amounts reflected herein due to a variety of factors. The unaudited pro forma condensed combined statement of operations does not reflect any operating efficiencies and/or cost savings that Invitae may achieve with respect to the combined companies.

These unaudited pro forma condensed combined financial statements should be read in conjunction with the following:

- The historical audited consolidated financial statements of Invitae as of and for the year ended December 31, 2019 included in Invitae’s Annual Report on Form 10-K for the year ended December 31, 2019 filed with the SEC on March 2, 2020;
- The historical unaudited consolidated financial statements of Invitae as of and for the nine months ended September 30, 2020 included in Invitae’s Quarterly Report on Form 10-Q for the quarter ended September 30, 2020 filed with the SEC on November 5, 2020;
- ArcherDX’s audited financial statements and notes thereto for the year ended December 31, 2019 and 2018 included as Exhibit 99.1 hereto;
- ArcherDX’s unaudited financial statements and notes thereto for the nine months ended September 30, 2020 included as Exhibit 99.2 hereto;
- Singular Bio’s financial statements and notes thereto for the three months ended March 31, 2019 included as Exhibit 99.2 to Amendment No. 1 to Invitae’s Current Report on Form 8-K filed August 28, 2019; and
- Jungla’s financial statements and notes thereto for the three months ended March 31, 2019 included as Exhibit 99.2 to Amendment No. 1 to Invitae’s Current Report on Form 8-K filed with the SEC on September 27, 2019.

INVITAE CORPORATION
UNAUDITED PRO FORMA CONDENSED COMBINED BALANCE SHEET
AS OF SEPTEMBER 30, 2020
(in thousands)

	Invitae Historical	ArcherDX Historical	Pro Forma Adjustments (Note 4)	Notes	Pro Forma Combined
Assets					
Current assets:					
Cash and cash equivalents	106,436	8,406	18,391	A, B, C, D	133,233
Marketable securities	254,848	—	—		254,848
Accounts receivable	27,328	16,701	—		44,029
Prepaid expenses and other current assets	26,492	19,762	4,320	A, B, E	50,574
Total current assets	415,104	44,869	22,711		482,684
Property and equipment, net	46,130	17,211	998	F	64,339
Operating lease assets	39,007	7,168	733	G	46,908
Restricted cash	6,685	—	—		6,685
Intangible assets, net	187,060	19,911	904,832	H	1,111,803
Goodwill	211,225	4,972	1,563,988	I	1,780,185
Other assets	7,961	878	—		8,839
Total assets	913,172	95,009	2,493,262		3,501,443
Liabilities and stockholders' equity					
Current liabilities:					
Accounts payable	15,589	4,800	(673)	D	19,716
Accrued liabilities	77,986	17,490	2,889	D, K, L	98,365
Operating lease obligations	6,628	1,224	125	G	7,977
Finance lease obligations	1,237	—	—		1,237
Total current liabilities	101,440	23,514	2,341		127,295
Operating lease obligations, net of current portion	42,363	7,263	138	G	49,764
Finance lease obligations, net of current portion	1,834	—	—		1,834
Convertible senior notes, net	279,870	—	—		279,870
Debt	—	61,647	40,624	B, J	102,271
Deferred Tax Liability	10,250	—	38,839	M	49,089
Other long-term liabilities	60,864	92,744	840,249	J, K, L	993,857
Total liabilities	496,621	185,168	922,191		1,603,980
Convertible preferred stock	—	174,276	(174,276)	Q	—
Stockholders' equity:					
Common stock	13	67	(63)	A, O, Q	17
Accumulated other comprehensive loss	199	—	—		199
Additional paid-in capital	1,542,848	6,803	1,435,479	A, N, O, P, Q	2,985,130
Accumulated deficit	(1,126,509)	(271,305)	309,931	C, D, L, M, P, Q	(1,087,883)
Total stockholders' equity	416,551	(264,435)	1,745,347		1,897,463
Total liabilities and stockholders' equity	913,172	95,009	2,493,262		3,501,443

See accompanying notes to the Unaudited Pro Forma Condensed Combined Financial Information

INVITAE CORPORATION
UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2020
(in thousands, except per share data)

	Invitae Historical	ArcherDX Historical	Pro Forma Adjustments (Note 4)	Notes	Pro Forma Combined
Revenue:					
Test revenue	175,503	33,093	—		208,596
Other revenue	3,664	14,542	—		18,206
Total revenue	179,167	47,635	—		226,802
Cost of test and other revenue	130,017	21,080	15,052	H, R	166,149
Research and development	168,433	55,865	3,228	F, G, R	227,526
Selling and marketing	119,440	15,538	3,787	F, G, H, R	138,765
General and administrative	81,966	102,552	(36,863)	D, F, G, H, J, R	147,655
Loss from operations	(320,689)	(147,400)	14,796		(453,293)
Other income (expense), net	(32,499)	(50,795)	(1,512)	J	(84,806)
Interest expense, net	(17,244)	(3,867)	(13,776)	B, J	(34,887)
Net loss before taxes	(370,432)	(202,062)	(492)		(572,986)
Income tax benefit	(2,600)	—	—		(2,600)
Net loss	(367,832)	(202,062)	(492)		(570,386)
Net loss per share, basic and diluted	$ (3.08)	$ (30.84)			$ (3.44)
Shares used in computing net loss per share, basic and diluted	119,386	6,552	39,768	Q, S	165,706

See accompanying notes to the Unaudited Pro Forma Condensed Combined Financial Information

INVITAE CORPORATION
UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2019
(in thousands, except per share data)

	Invitae Historical	Singular Bio Pro Forma (Note 5)	Jungla Pro Forma (Note 6)	Invitae, Singular Bio and Jungla Pro Form Combined	ArcherDX Historical	Pro Forma Adjustments (Note 4)	Notes	Pro Forma Combined
Revenue:								
Test revenue	212,473	—	—	212,473	26,332	—		238,805
Other revenue	4,351	—	—	4,351	24,234	—		28,585
Total revenue	216,824	—	—	216,824	50,565	—		267,390
Cost of test and other revenue	118,103	—	2,403	120,506	16,547	20,070	H, R	157,123
Research and development	141,526	(38,238)	358	103,647	34,172	6,545	F, G, R	144,364
Selling and marketing	122,237	—	—	122,237	15,428	5,317	F, G, H, R	142,982
General and administrative	79,070	(5,435)	(2,941)	70,694	21,643	18,881	F, G, H, J, R	111,218
Loss from operations	(244,112)	43,673	180	(200,260)	(37,225)	(50,813)		(288,297)
Other income (expense), net	(3,891)	26	—	(3,865)	(824)	1,552	J	(3,137)
Interest expense, net	(12,412)	3	—	(12,409)	(2,432)	(21,527)	B, J	(36,368)
Net loss before taxes	(260,415)	43,702	180	(216,533)	(40,481)	(70,788)		(327,802)
Income tax benefit	(18,450)	3,950	8,750	(5,750)	497	—		(5,253)
Net loss	(241,965)	39,752	(8,570)	(210,783)	(40,978)	(70,788)		(322,549)
Net loss per share, basic and diluted	$ (2.66)			$ (2.27)	$ (6.39)			$ (2.32)
Shares used in computing net loss per share, basic and diluted	90,859	1,160	735	92,754	6,415	39,905	Q, S	139,074

See accompanying notes to the Unaudited Pro Forma Condensed Combined Financial Information

1. Merger of ArcherDX

In October 2020, we acquired 100% of the equity interest of ArcherDX, Inc., a privately held company specializing in precision oncology and genomic analysis, for approximately $2.6 billion in consideration, comprised of shares of Invitae common stock, Invitae stock option awards, additional shares of Invitae common stock to be issued in the future contingent upon the completion of certain milestones, and cash.

The merger is accounted for using the acquisition method of accounting in accordance with Accounting Standards Codification ("ASC") 805 - Business Combinations. Under the acquisition method of accounting, the total purchase price of the merger is allocated to the tangible and identifiable intangible assets and liabilities assumed based on their relative fair values. The excess of the purchase price over the net assets is recorded as goodwill.

Per the terms of the merger agreement, 26.3 million shares of Invitae common stock were issued to ArcherDX stockholders with a fair value of $1.0 billion, based on the closing price of Invitae's common stock on October 2, 2020 and discounted for the associated lock-up provision which limits the marketability of the share over a specified timeframe. The discount applied is based on our best estimate at this time, however, it is preliminary and is subject to change. Any changes in the discount could impact the fair value of the shares issued by an estimated two to three percent.

The merger agreement provides that a portion of the outstanding ArcherDX stock option awards are converted into the right to receive cash and the remaining portion is converted into an option to purchase Invitae common stock. ArcherDX option holders received a cash payout of $30.5 million with the remaining ArcherDX stock option awards converting into 3.7 million fully vested Invitae stock option awards with an estimated fair value of $147.3 million. Because the ArcherDX stock option awards that were outstanding and unvested prior to the merger have fully vested per the terms of the merger agreement, the acceleration of vesting required us to allocate the fair value of the consideration provided attributable to pre-combination service to the purchase price and the remaining amount accounted as post-combination expense. Based on these fair values at the closing date, $114.2 million of the consideration is recognized as nonrecurring compensation related to the acceleration of unvested equity, which will be recorded as general and administrative expense.

As part of the merger, Invitae may be required to pay an estimated fair value of $1.0 billion in additional consideration based on the achievement of certain milestones; a majority will be in the form of 26.8 million shares of Invitae common stock and the remainder in cash. The milestones relate to the submission to and approval from regulatory authorities related to certain technologies that ArcherDX is in the process of developing and the achievement of a cumulative revenue target related to an ArcherDX specific product. Invitae estimates that it is probable that all milestones will be achieved within approximately two years. In addition to achieving the milestones, certain legacy ArcherDX option holders are subject to continuing employment requirements, and therefore, an estimated $111.3 million will be recognized as post-close compensation expense over the period that the services are provided. If any option holders cease employment before any or all milestone achievement dates, their right to additional consideration is forfeited and the consideration is redistributed to the ArcherDX equity holders and remaining ArcherDX option holders. The amount recognized as post-close compensation expense is calculated based on the estimated number of shares issuable to ArcherDX option holders, including estimated forfeitures, and the closing share price of Invitae's common stock. We estimate the milestone consideration issuable to ArcherDX equity holders and certain ArcherDX option holders, without a continuing employment requirement, to be $928.6 million and the cash portion to be $8.5 million. The fair value of the contingent consideration related to the submission to and approval from regulatory authorities is based on the estimated number of shares of Invitae common stock to be issued and the closing share price as of October 2, 2020, less a discount for the lock-up provision for shares expected to be issued during the lock-up period. The contingent consideration related to achievement of a cumulative revenue target is estimated using a Monte Carlo simulation. Of the $928.6 million, $917.1 million is included in the purchase price as contingent consideration and $11.5 million is recognized as nonrecurring compensation expense due to the acceleration of unvested ArcherDX option awards. The material factors that may impact the fair value of the post-close compensation expense and the contingent consideration are (i) the estimated forfeiture rate, (ii) stock volatility assumptions used in the Monte Carlo simulation, (iii) the probabilities and timing of achievement used to estimate the fair value, and (iv) the discount rate applied to the purchase price for the lack of marketability of equity transferred during the lock-up period. Significant changes in any of these factors could result in significant changes in the fair value.

The estimated purchase price and post-combination expense for the merger is as follows (in millions):

	Purchase Price	Nonrecurring Compensation Expense	Post-Close Compensation Expense	Total
Cash consideration	$ 337.3	$ 23.2	—	$ 360.5
Liabilities incurred	925.6	11.5	111.3	1,048.4
Equity consideration	1,060.6	91.0	—	1,151.6
Total	2,323.5	125.7	111.3	2,560.5

The following table provides the estimated pro forma purchase price allocation (in millions):

Cash and cash equivalents	$ 8.4
Accounts receivable	16.7
Prepaids and other current assets	24.6
Property and equipment, net	18.2
Operating lease assets	7.9
Finite life intangible assets	271.5
Indefinite life intangible assets	653.3
Other assets	0.9
Total identifiable assets	1,001.5
Accounts payable	(4.8)
Accrued liabilities	(17.6)
Operating lease obligations (current)	(1.4)
Operating lease obligations, net of current portion	(7.4)
Deferred tax liability	(215.8)
Total liabilities	(247.0)
Net identifiable assets acquired	754.5
Goodwill	$1,569.0

Our purchase price allocation for the merger is preliminary and subject to revision as additional information about fair value of assets and liabilities and the discount rate for the lack of marketability becomes available. Additional information that existed as of the closing date but at the time was unknown to us may become known to us during the remainder of the measurement period, a period not to exceed 12 months from the closing date.

To produce the unaudited pro forma financial information, we adjusted ArcherDX's assets and liabilities to their estimated fair values. We have engaged a third-party valuation company to complete the valuation of the ArcherDX assets acquired and liabilities assumed. However, we have not completed the detailed valuation work necessary to arrive at the required final estimates of the fair value of the ArcherDX assets to be acquired and the liabilities to be assumed and the related allocation of the purchase price. The primary areas that are not yet finalized are related to certain income tax items, inventory, deferred revenue, intangible assets, property and equipment, working capital adjustments as defined in the merger agreement, amortization and depreciation lives, and goodwill. The preliminary purchase price allocation was based on an initial analysis. Any increases or decreases in the fair value of relevant statement of financial position amounts will result in adjustments to the statement of financial position and/or statements of operations until the purchase price allocation is finalized. There can be no assurance that such finalization will not result in material changes from the preliminary purchase price allocation included in the accompanying unaudited pro forma condensed combined financial statements. Accordingly, adjustments will be made to the values of the assets acquired and liabilities assumed as additional information is obtained about the facts and circumstances that existed at the valuation date.

Goodwill represents the excess of the purchase price over the fair value of the net tangible and intangible assets acquired. Goodwill recorded as part of the merger consists of the future economic benefits not related to an identifiable asset. Rather, it represents the anticipated benefits of synergies created through the merger, and the use of both companies' technologies and complementary workforces in tandem to create other types of testing apart from what currently exists or is currently in development.

2. ArcherDX Accounting Policies Historical Financial Statement Reclassification

ArcherDX's historical audited and unaudited consolidated financial statements were prepared in accordance with U.S. GAAP. Invitae performed certain procedures for the purposes of identifying material differences in significant accounting policies between Invitae and ArcherDX, and any accounting adjustments that would be required in connection with adopting uniform policies. These procedures included a review of ArcherDX's significant accounting policies and discussion with ArcherDX management. To date, no differences in the accounting policies that will result in material adjustments to Invitae's consolidated financial statements have been identified.

Additionally, the historical consolidated statements of operations of ArcherDX presented herein have been adjusted to present ArcherDX's (i) historical revenue and costs of revenue as test revenue and other revenue based on the underlying transactions, and (ii) aggregating contingent consideration expense into general and administrative expense as it was presented as a separate financial statement line item by ArcherDX. Further, the historical consolidated balance sheet of ArcherDX presented herein has been adjusted by condensing certain line items including: (i) inventory into other current assets, and (ii) accrued expenses, accrued compensation, other current liabilities and deferred revenue into accrued liabilities.

3. Financing Transactions

In connection with the merger and as a condition under the merger agreement, Invitae entered into a Credit Agreement and Guaranty with Perceptive Credit Holdings III, LP ("lender") and we issued a note for $135.0 million (the "debt financing"). The funds from the facility were used (i) to finance the merger in part, (ii) to pay fees, costs and expenses related to the facility, the merger, and the equity financing (discussed below), and (iii) for other general working capital purposes. As part of the facility, Invitae issued a warrant to the lender which is immediately exercisable into 1 million shares of Invitae common stock with a seven-year exercise period. On October 21, 2020, the lender exercised the warrant and net settled for 666,872 shares of Invitae common stock.

In addition, Invitae closed on the Securities Purchase Agreement with the investors named therein pursuant to which Invitae issued 16.3 million shares of common stock at a price of $16.85 per share (the "equity financing"). The proceeds from the equity financing were used in part to finance the merger.

4. Pro Forma Adjustments related to the Merger of ArcherDX

The adjustments included in the unaudited pro forma condensed combined financial statements are as follows:

A. To reflect the net cash generated of $263.7 million, net of closing costs of $11.3 million, the reclassification of $0.02 million in deferred issuance costs from prepaid expenses and other current assets to APIC, and the related issuance of 16.3 million shares for the equity financing.

B. To reflect the net cash received and related obligation under the debt financing. The net cash impact of $129.8 million includes debt issuance costs paid at closing of $5.2 million. As the debt financing included the issuance of a warrant to the lender, the proceeds are allocated to the facility and the warrant based on a relative fair value method and $108 million was allocated to the facility, resulting in a debt discount of $27 million. Therefore, the obligation to pay $135 million includes a reduction for the debt discount and the debt issuance costs paid at closing, Additionally, $0.5 million in deferred issuance costs were reclassified from prepaid expenses and other current assets and reflected as a reduction to the obligation. The liability is classified as a noncurrent liability as payment is not due until June 2024.

To also reflect additional interest expense from the debt financing, including amortization of the debt discount and the debt issuance costs, for the nine months ended September 30, 2020 and year ended December 31, 2019 as if the financing had occurred on January 1, 2019. Interest expense has been adjusted as follows (in millions, except interest rates):

	Nine months ended September 30, 2020	Year ended December 31, 2019
Principal amount	$ 135.0	$ 135.0
Effective interest rate	18%	18%
Interest on principal	10.9	15.0
Amortization of debt discount and issuance costs	6.9	9.1
Total interest expense	**$ 17.7**	**$ 24.1**

C. To reflect the cash paid to ArcherDX equity holders of $360.5 million and the accumulated deficit impact of $23.3 million for the non-recurring post-close compensation expense related to the accelerated vesting of ArcherDX equity awards and cash bonuses paid to ArcherDX employees at the closing date.

D. To adjust for the nonrecurring transaction expenses incurred by Invitae and ArcherDX through the close of the merger. The transaction expenses incurred by Invitae of $6.5 million and by ArcherDX of $4.6 million for the nine months ended September 30, 2020 are eliminated in the pro forma condensed combined statement of operations as an adjustment to general and administrative expense. The nonrecurring transaction expenses incurred by Invitae not reflected in the pro forma condensed combined balance sheet are recorded as an adjustment to accumulated deficit and cash for $12.6 million. The nonrecurring expenses incurred by Invitae and ArcherDX prior to September 30, 2020 are reflected as an elimination from accounts payable for $0.7 million and accrued expenses of $1.3 million and as a reduction to cash for $2.0 million.

Costs associated with ArcherDX's proposed initial public offering of $3.0 million incurred by ArcherDX for the nine months ended September 30, 2020 are also eliminated as an adjustment to general and administrative expense.

E. To reflect the fair value adjustment of $4.8 million related to the inventory acquired including finished goods and work in progress ("WIP"). The estimated fair value of the inventory is determined using a top-down approach, which starts with the estimated selling price of the inventory on hand reduced for the estimated costs to complete (specific to WIP) and costs of disposal, the related estimated profit for the costs to complete and disposal, as well as estimated holding costs. Management did not include an adjustment to the pro forma condensed combined statement of operations, as any impact would be short-term in nature based on ArcherDX's historical inventory turnover rate and is considered nonrecurring and would have been recorded in the subsequent year.

F. To reflect the fair value adjustment of $1.0 million for the property and equipment acquired. The estimated fair value is determined using a cost approach based on the net book value of each asset class adjusted for (i) the current market replacement cost, (ii) the physical and technology differences of the property and equipment, and (iii) the estimated accumulated depreciation as if replacement cost was applied at the original purchase date.

The following table summarizes the estimated fair values for each asset class, the remaining estimated useful life, and the impact to depreciation reflected in the pro forma condensed combined statements of operations (in millions):

	Fair Value	Remaining Estimated Useful Life in Years	Nine months ended September 30, 2020	Year ended December 31, 2019
Furniture and fixtures	$ 0.6	6	$ 0.1	$ 0.1
Computer equipment	0.1	2	0.0	0.1
Lab test equipment	12.3	4	2.4	3.1
Manufacturing equipment	0.8	4	0.1	0.2
Leasehold improvements	1.3	4	0.2	0.3
Computer software	0.2	3	0.1	0.1
Construction in progress	1.8	n/a	n/a	n/a
Total	**$ 17.1**		**$ 2.9**	**$ 3.9**
Historical depreciation expense			2.9	1.7
Pro forma adjustment			**$ 0.0**	**$ 2.2**

The increase in fair value is not expected to significantly impact depreciation expense for the nine months ended September 30, 2020, but it is expected to increase depreciation expense by $2.2 million for the year ended December 31, 2019 which was recorded to general and administrative, research and development, and selling and marketing based on ArcherDX's historical expense allocation.

G. To adjust the right-of-use assets and lease liabilities for leases acquired as part of the merger. Invitae calculated the lease liability of $8.8 million based on the remaining lease payments as of the closing date discounted using Invitae's discount rate and presented as current and noncurrent based on the timing of subsequent payments. The right of use asset of $7.9 million is calculated based on the lease liability less lease incentives and the tenant improvement allowance to be received post-close. Based on Invitae's policy, no short-term leases are recognized on the pro forma condensed combined balance sheet.

The related rent expense is also adjusted, based on the straight-line expense of the leases acquired, resulting in a $0.04 million decrease for the nine months ended September 30, 2020 and a $1.3 million increase for the year ended December 31, 2019. The adjustment to rent expense is recognized in general and administrative, research and development, and selling and marketing based on ArcherDX's historical expense allocation.

H. To reflect the fair value of intangible assets acquired including in-process research and development ("IPR&D"), developed technology, trade names, and customer relationships.

IPR&D includes projects related to the development of two new technologies, valued at $192.6 million and $460.7 million, respectively. The estimated fair value of the IPR&D is determined using the multi-period excess earnings method which calculates the present value of the estimated revenues and net cash flows derived from the IPR&D once the technology is developed. IPR&D is an intangible asset classified as indefinite-lived until the completion or abandonment of the associated research and development effort and will be amortized over the estimated useful life which will be determined at the date each project is completed.

The developed technology is valued based on a multi-period excess earnings method which calculates the present value of the estimated revenues and net cash flows derived from the developed technology. The fair value of the trade names is based on the relief from royalty method which estimates the value of the trade names based on the hypothetical royalty payments that are saved by owning the asset. Customer relationships are valued using a with and without method which compares the cash flows of the customer relationships in place to those if the business had to rebuild the relationships.

The table below summarizes the fair values for each finite life intangible asset, the estimated useful life, and the impact to the pro forma condensed combined statements of operations (in millions, except years):

	Fair Value	Estimated Useful Life in Years	Nine months ended September 30, 2020	Year ended December 31, 2019	Income Statement Classification
Developed technology	$ 239.2	12	14.9	19.9	Cost of test and other revenue
Trade names	18.7	12	1.2	1.6	Selling and marketing
Customer relationships	13.6	12	0.9	1.1	Selling and marketing
Total	$ 271.5		$ 17.0	$ 22.6	

Additionally, to reflect the elimination of historical ArcherDX intangible assets and the related amortization expense of $0.3 million in general and administrative expense for the nine months ended September 30, 2020 and $1.0 million in general and administrative expense for the twelve months ended December 31, 2019.

I. To reflect estimated goodwill recognized from the merger, and the elimination of historical ArcherDX goodwill.

J. To eliminate ArcherDX's historical outstanding debt and debt-like items, including the historical loan outstanding, net of issuance costs of $61.6 million and other long-term liabilities of $90.1 million related to historical contingent consideration.

To also reflect the elimination of (i) historical interest expense for ArcherDX debt of $4.0 million for the nine months ended September 30, 2020 and $2.6 million for the year ended December 31, 2019; (ii) the elimination of changes in the fair value of the historical warrant liability of $1.5 million for the nine months ended September 30, 2020 and $1.6 million for the year ended December 31, 2019; and (iii) the elimination of changes in the fair value of the historical contingent consideration liability of $43.8 million for the nine months ended September 30, 2020 and $5.8 million expense for the year ended December 31, 2019. The ArcherDX debt was not assumed by Invitae.

K. To adjust the assumed deferred revenue obligations to fair value of $3.6 million of which the total is presented as current. This resulted in an increase of $0.1 million to current deferred revenue and the elimination of noncurrent deferred revenue. The fair value was estimated based on the estimated costs to fulfill the remaining performance obligations plus a normal profit margin.

L. To reflect the estimated fair value of the milestone awards issuable and cash payable to ArcherDX equity holders and certain ArcherDX option holders, without a continuing employment requirement, of $925.6 million and the accumulated deficit impact of $11.5 million for the non-recurring post-close compensation expense related to the accelerated vesting of ArcherDX equity awards. The $4.1 million of the liability is classified as current within accrued liabilities based on the payments to be made within 12 months with the remainder as noncurrent and recorded in other long-term liabilities.

M. To reflect a net estimated $38.8 million increase in deferred tax liabilities as a result of the merger consisting of $215.8 million of deferred tax liabilities arising from estimated purchase adjustments in connection with the merger offset by an estimated $177.0 million decrease in the valuation allowance on Invitae's deferred tax assets. Following the merger, ArcherDX and Invitae will file a consolidated federal tax return. As a result of the Tax Cuts and Jobs Act, federal net operating losses arising in 2018 and later years can only offset 80% of taxable income. As a result of the expected consolidated federal tax return filings, the deferred tax liabilities assumed in connection with the merger may serve as a source of income to support the realization of Invitae's deferred tax assets. In order to estimate the decrease in the valuation allowance on Invitae's deferred tax assets, Invitae has assumed that only 80% of the federal deferred tax liabilities assumed, or $177.0 million tax-effected, may serve as a source of income as the majority of the Invitae's net operating loss ("NOL") carryover deferred tax assets were generated in 2018 and later years.

N. To reflect the warrant issued as part of the debt financing to the lender to purchase 1.0 million shares of Invitae common stock. The proceeds of the debt financing were allocated to the facility and the warrant using a relative fair value method. The fair value of the warrant issued was estimated by using a Black-Scholes model at $33.6 million which resulted in $27.0 million allocated to the warrant through a relative fair value allocation. Subsequent to the merger, the lender exercised the warrant and net share settled resulting in Invitae issuing 0.7 million shares of common stock.

O. To reflect the issuance of 26.3 million shares of Invitae common stock in connection with the merger.

P. To reflect the 3.7 million Invitae stock option awards, with an estimated fair value of $147.3 million based on Invitae's closing share price as of October 2, 2020 less the exercise price, converted in connection with the merger and the impact to accumulated deficit for the non-recurring post-close compensation expense related to the accelerated vesting.

Q. To eliminate ArcherDX's historical equity including shares outstanding.

R. To reflect the estimated post-combination expense related for consideration paid to ArcherDX stock option holders for meeting certain milestones and continuing employment. The estimated post-close expense will have a continuing impact to Invitae for a period longer than 12 months, will be recognized over the estimated period to achieve each milestone, and is allocated to each financial statement line item as follows (in millions):

	Nine months ended September 30, 2020	Year ended December 31, 2019
Cost of test and other revenue	$ 0.1	$ 0.1
Research and development expense	3.2	4.3
Selling & marketing expense	1.8	2.4
General & administrative expense	18.5	24.7
Total	**$ 23.6**	**$ 31.5**

S. To reflect the additional 26.3 million shares of Invitae common stock issued, 3.7 million fully vested Invitae stock option awards converted as part of the merger, and 16.3 million shares of Invitae common stock issued as part of the equity financing. Potentially dilutive securities, consisting of the contingent consideration agreed to as part of the merger and warrants issued as part of the debt financing, were excluded from the calculation of diluted net loss per share because their effect would be antidilutive for all periods presented.

5. Acquisition of Singular Bio and Pro Forma Adjustments

In June 2019, Invitae acquired 100% of the fully diluted equity of Singular Bio, a privately held company developing single molecule detection technology, for approximately $57.3 million, comprised of $53.9 million in the form of 2.5 million shares of Invitae common stock and the remainder in cash.

Prior to the acquisition, in September 2018 Invitae entered into a co-development agreement with Singular Bio whereby Invitae paid Singular Bio $3.0 million for a 12-month right of first refusal and an opportunity to conduct due diligence on its business. As of January 2019, Invitae made all required payments under the terms of this co-development agreement.

In connection with the acquisition, all of Singular Bio's equity awards that were outstanding and unvested prior to the acquisition became fully vested per the terms of the Singular Bio merger agreement. The acceleration of vesting required us to allocate the fair value of the equity attributable to pre-combination service to the purchase price and the remaining was considered Invitae's post-combination expense. Invitae recognized post-combination expense related to the acceleration of unvested equity of $3.2 million which was recorded as Invitae's general and administrative expense during the year ended December 31, 2019.

The pro forma statement of operations for the acquisition of Singular Bio is as follows (in thousands):

	Singular Bio Historical (January 1, 2019 to June 19, 2019)	**Pro Forma Adjustments**	**Note**	**Singular Bio Pro Forma**
Revenue				
Test revenue	—	—		—
Other revenue	—	—		—
Total revenue	—	—		—
Cost of revenue	—	—		—
Research and development	866	(39,104)	B	(38,238)
Selling and marketing	—	—		—
General and administrative	1,752	(7,187)	A,C,D	(5,435)
Loss from operations	(2,619)	46,291		43,673
Other income (expense), net	2,051	(2,025)	C	26
Interest expense	(744)	777	E	3
Net loss before taxes	(1,341)	45,043		43,702
Income tax benefit	—	3,950	F	3,950
Net loss	(1,341)	41,093		39,752
Net loss per share, basic and diluted				
Shares used in computing net loss per share, basic and diluted		1,160	G	1,160

A. To eliminate the nonrecurring post-combination expense of $3.2 million recorded due to the acceleration of unvested equity.

B. To remove the $39.1 million of stock-based compensation related to the time-based restricted stock units ("RSUs") and performance-based RSUs granted in connection with the Singular Bio acquisition.

C. To eliminate the effects of the $3.0 million co-development agreement between Invitae and Singular Bio. Invitae recognized expense related to the co-development agreement from September 2018 through June 2019 through general and administrative expense with $2.0 million recognized during the six months ended June 30, 2019. This amount occurred prior to the close of the Singular Bio acquisition and therefore is added back to net income (loss). Singular Bio recognized other income (expense) related to this co-development agreement of $2.0 million during the six months ended June 30, 2019. As the other income related to this agreement would not have been recognized during this period had the acquisition closed on January 1, 2019 this adjustment reverses the other income recognized.

D. To eliminate $2.0 million of nonrecurring transaction costs incurred by both Invitae and Singular Bio that were incurred during the year ended December 31, 2019 and were directly related to the acquisition of Singular Bio.

E. To remove interest expenses related to the extinguishment of debt and debt-like items incurred by Singular Bio of $0.8 million during the year ended December 31, 2019. This debt was not assumed by Invitae in connection with the acquisition.

F. To remove the income tax benefit recognized due to net deferred tax liabilities assumed in connection with the acquisition of Singular Bio.

G. To reflect the 1.2 million adjustment to the weighted average of shares outstanding of Invitae common stock issued in connection with the acquisition of Singular Bio.

6. Acquisition of Jungla and Pro Forma Adjustments

In July 2019, Invitae acquired 100% of the equity interest of Jungla, a privately held company developing a platform for molecular evidence testing in genes, for approximately $59.0 million, comprised of $44.9 million in the form of shares of Invitae common stock and the remainder in cash. Invitae agreed to pay a portion of the cash and issue approximately 0.2 million shares of Invitae common stock after a 12-month period, subject to a hold back to satisfy indemnification obligations that may arise.

As a part of the consideration, Invitae may be required to pay $10.7 million of contingent consideration based on the achievement of post-closing milestones contingent on the ongoing development, $9.6 million of which would be in the form of shares of Invitae common stock and the remainder in cash. The milestones are expected to be completed within two years. The material factors that may impact the fair value of the contingent consideration, and therefore, this liability, are the probabilities and timing of achieving the related milestones and the discount rate Invitae used to estimate the fair value. Significant changes in any of the probabilities of success would result in a significant change in the fair value, which will be estimated at each reporting date with changes reflected as a general and administrative expense.

In connection with the acquisition, a portion of Jungla's equity awards that were outstanding and unvested prior to the acquisition became fully vested per the terms of the Jungla merger agreement. The acceleration of vesting required us to allocate the fair value of the equity attributable to pre-combination service to the purchase price and the remaining amount was considered Invitae's post-combination expense. In July 2019, Invitae recognized post-combination expense related to the acceleration of unvested equity of $2.9 million, which was recorded as general and administrative expense.

The pro forma statement of operations for the acquisition of Jungla is as follows (in thousands):

	Jungla Historical (January 1, 2019 to July 16, 2019)	Pro Forma Adjustments	Note	Jungla Pro Forma
Revenue				
Test revenue	—	—		—
Other revenue	—	—		—
Total revenue	—	—		—
Cost of revenue	—	2,403	C	2,403
Research and development	358	—		358
Selling and marketing	—	—		—
General and administrative	868	(3,809)	A,B	(2,941)
Loss from operations	(1,226)	1,406		180
Other income (expense), net	—	—		—
Interest expense	—	—		—
Net loss before taxes	(1,226)	1,406		180
Income tax benefit	—	8,750	D	8,750
Net loss	(1,226)	(7,344)		(8,570)
Net loss per share, basic and diluted				
Shares used in computing net loss per share, basic and diluted		735	E	735

A. To eliminate the $2.9 million post-combination compensation expense recognized due to the acceleration of Jungla's equity awards.
B. To eliminate $0.8 million of non-recurring transaction costs incurred by both Invitae and Jungla during the year ended December 31, 2019 and were directly related to the acquisition of Jungla.
C. To reflect the additional amortization of the acquired developed technology of $2.4 million for the year ended December 31, 2019. As the primary use of the developed technology is to generate revenue, the amortization is presented as cost of revenue.
D. To remove the income tax benefit recognized due to net deferred tax liabilities assumed in connection with the acquisition of Jungla.
E. To reflect the 0.7 million adjustment to the weighted-average of shares outstanding of Invitae common stock issued in connection with the acquisition of Jungla.