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: November 14, 2017
(Date of earliest event reported)

Invitae Corporation
(Exact name of registrant as specified in its charter)

Delaware	**001-36847**	**27-1701898**
(State or other jurisdiction of incorporation or organization)	**(Commission File Number)**	**(I.R.S. employer identification number)**

1400 16th Street, San Francisco, California 94103
(Address of principal executive offices, including 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 (*see* General Instruction A.2. below):

☐ 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))

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. ☒

EXPLANATORY NOTE

On November 14, 2017, Invitae Corporation ("Invitae"), filed a Current Report on Form 8-K (the "Original Form 8-K") with the Securities and Exchange Commission (the "Commission") to report the completion of its previously announced acquisition of CombiMatrix Corporation ("CombiMatrix") in accordance with the terms of the Agreement and Plan of Merger and Reorganization, dated as of July 31, 2017 (the "Merger Agreement"), by and among Invitae, Coronado Merger Sub, Inc., a wholly owned subsidiary of Invitae ("Merger Sub"), and CombiMatrix, pursuant to which Merger Sub merged with and into CombiMatrix, with CombiMatrix surviving as a wholly owned subsidiary of Invitae (the "Merger").

The audited financial statements of CombiMatrix as of and for the year ended December 31, 2016 required by Item 9.01(a) were previously filed with the Commission on September 13, 2017 as part of Invitae's Registration Statement on Form S-4 (No. 333-220447), which was declared effective by the Commission on October 5, 2017. Pursuant to General Instruction B.3 of Form 8-K, such financial statements were not required to be filed with the Original Form 8-K. Invitae stated in the Original Form 8-K that it intended to file the interim financial statements of CombiMatrix required by Item 9.01(a) and the pro forma financial information required by Item 9.01(b) as part of an amendment to the Original Form 8-K not later than 71 calendar days after the date the Original Form 8-K was required to be filed. Invitae hereby amends the Original Form 8-K in order to file (i) the historical unaudited consolidated financial statements of CombiMatrix as of September 30, 2017 and for the three and nine months ended September 30, 2017 and September 30, 2016 as required by Item 9.01(a) and (ii) the pro forma condensed combined financial information of Invitae as required by Item 9.01(b), and, for ease of reference, is also filing herewith the audited historical consolidated financial statements of CombiMatrix as of and for the year ended December 31, 2016 included in Exhibit 99.2.

Item 9.01 Financial Statements and Exhibits.

(a) Financial Statements of Businesses Acquired.

The audited consolidated financial statements of CombiMatrix as of and for the year ended December 31, 2016, together with the report thereon of Haskell & White LLP included in the audited consolidated financial statements of CombiMatrix as of December 31, 2016 and December 31, 2015 and for each of the years then ended, are attached hereto as Exhibit 99.2.

The unaudited consolidated balance sheet of CombiMatrix as of September 30, 2017, and the unaudited consolidated statements of operations of CombiMatrix for the three and nine months ended September 30, 2017 and September 30, 2016, are attached hereto as Exhibit 99.3.

(b) Pro Forma Financial Information.

The unaudited pro forma condensed combined balance sheet of Invitae as of September 30, 2017, and the unaudited pro forma condensed combined statements of operations of Invitae for the year ended December 31, 2016 and for the nine months ended September 30, 2017, each giving effect to the Merger, are attached hereto as Exhibit 99.4.

(d) Exhibits

Exhibit No.	Description
2.1*^	Agreement and Plan of Merger and Reorganization, dated as of July 31, 2017, by and among Invitae Corporation, Coronado Merger Sub, Inc. and CombiMatrix Corporation (incorporated by reference to Exhibit 2.1 to Invitae Corporation's Current Report on Form 8-K filed on August 1, 2017).
23.1	Consent of Haskell & White LLP.
99.1*	Press release issued by Invitae Corporation on November 15, 2017.
99.2	Audited consolidated financial statements of CombiMatrix Corporation as of and for the year ended December 31, 2016 included in the audited consolidated financial statements of CombiMatrix Corporation as of December 31, 2016 and December 31, 2015 and for the years then ended.
99.3	Unaudited consolidated balance sheet of CombiMatrix Corporation as of September 30, 2017, and the unaudited consolidated statements of operations of CombiMatrix Corporation for the three and nine months ended September 30, 2017 and September 30, 2016.
99.4	Unaudited pro forma condensed combined balance sheet of Invitae as of September 30, 2017, and the unaudited pro forma condensed combined statements of operations of Invitae for the year ended December 31, 2016 and for the nine months ended September 30, 2017.

* Previously filed.

^ The schedules and exhibits to this agreement have been omitted pursuant to Item 601(b)(2) of Regulation S-K. A copy of any omitted schedule and/or exhibit will be furnished to the SEC upon request.

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: January 26, 2018	INVITAE CORPORATION	
	By:	/s/ Shelly D. Guyer
	Name:	Shelly D. Guyer
	Title:	Chief Financial Officer

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference into the Registration Statements on Form S-8 (Nos. 333-202066 and 333-216761) and Registration Statement on Form S-3 (333-211368) of Invitae Corporation of our report dated March 3, 2017, related to our audit of CombiMatrix Corporation's (the "Company") consolidated financial statements as of December 31, 2016 and for the year then ended, included in the Company's Annual Report on Form 10-K for the year ended December 31, 2016 which appears in this Current Report on Form 8-K/A of Invitae Corporation. We also consent to the reference to our Firm under the heading "Experts" in the Registration Statement on Form S-3 and the related prospectus.

/s/ HASKELL & WHITE LLP

Irvine, California
January 26, 2018

COMBIMATRIX CORPORATION
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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders
CombiMatrix Corporation
Irvine, California

We have audited the accompanying consolidated balance sheets of CombiMatrix Corporation (the "Company") as of December 31, 2016 and December 31, 2015, and the related consolidated statements of operations, comprehensive loss, stockholders' equity, and cash flows for each of the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The Company has determined that it is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, 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. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of CombiMatrix Corporation as of December 31, 2016 and December 31, 2015, and the consolidated results of its operations and its cash flows for each of the years then ended, in conformity with accounting principles generally accepted in the United States.

/S/ HASKELL & WHITE LLP

Irvine, California
March 3, 2017

COMBIMATRIX CORPORATION
CONSOLIDATED BALANCE SHEETS
As of December 31, 2016 and 2015
(In thousands, except share and per share information)

	December 31, 2016	December 31, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	$ 2,727	$ 653
Short-term investments	1,000	3,248
Accounts receivable, net of allowance for doubtful accounts of $232 and $235	3,351	2,682
Supplies	599	418
Prepaid expenses and other assets	174	200
Total current assets	7,851	7,201
Property and equipment, net	597	691
Other assets	30	30
Total assets	$ 8,478	$ 7,922
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable, accrued expenses and other	$ 1,689	$ 1,591
Current portion, long-term debt	100	193
Total current liabilities	1,789	1,784
Capital lease obligations, net of current portion	50	71
Secured promissory note payable, net of current portion	—	34
Deferred rent	145	177
Total liabilities	1,984	2,066
Commitments and contingencies (Note 9)		
Stockholders' equity:		
Convertible preferred stock; $0.001 par value; 5,000,000 shares authorized;		
Series E—2,202 shares authorized; none and 2,201.493 issued and outstanding	—	—
Series F—8,000 shares authorized; 969 and none issued and outstanding	—	—
Common stock; $0.001 par value; 50,000,000 shares authorized; 2,673,756 and 845,374 shares issued and outstanding	15	13
Additional paid-in capital	109,068	102,651
Accumulated other comprehensive loss	—	(2)
Accumulated deficit	(102,589)	(96,806)
Total stockholders' equity	6,494	5,856
Total liabilities and stockholders' equity	$ 8,478	$ 7,922

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

COMBIMATRIX CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
For the Years Ended December 31, 2016 and 2015
(In thousands, except share and per share information)

	For the Years Ended December 31, 2016	2015
Revenues:		
Diagnostic services	$ 12,696	$ 9,941
Royalties	173	147
Total revenues	12,869	10,088
Operating expenses:		
Cost of services	5,787	5,444
Research and development	493	466
Sales and marketing	4,569	4,979
General and administrative	6,013	5,540
Patent amortization and royalties	100	100
Impairment of cost-basis investment	—	97
Total operating expenses	16,962	16,626
Operating loss	(4,093)	(6,538)
Other income (expenses):		
Interest income	22	16
Interest expense	(69)	(79)
Total other income (expense)	(47)	(63)
Net loss	$ (4,140)	$ (6,601)
Deemed dividend from issuing Series F convertible preferred stock and warrants	$ (1,877)	$ —
Deemed dividend paid for right to repurchase Series E convertible preferred stock	(656)	—
Deemed dividend from issuing and modifying Series E convertible preferred stock and warrants	890	(1,058)
Net loss attributable to common stockholders	$ (5,783)	$ (7,659)
Basic and diluted net loss per share	$ (2.34)	$ (7.95)
Deemed dividend from issuing Series F convertible preferred stock and warrants	(1.06)	—
Deemed dividend paid for right to repurchase Series E convertible preferred stock	(0.37)	—
Deemed dividend from issuing and modifying Series E convertible preferred stock and warrants	0.50	(1.27)
Basic and diluted net loss per share attributable to common stockholders	$ (3.27)	$ (9.22)
Basic and diluted weighted average common shares outstanding	1,768,090	830,835

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

COMBIMATRIX CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
For the Years Ended December 31, 2016 and 2015
(In thousands, except share and per share information)

	For the Years Ended December 31,	
	2016	2015
Net loss	$(4,140)	$(6,601)
Unrealized gain on available-for-sale investments	2	1
Total comprehensive loss	$(4,138)	$(6,600)

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

COMBIMATRIX CORPORATION
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
For the Years Ended December 31, 2016 and 2015
(In thousands, except share information)

	Series E Convertible Preferred Stock		Series F Convertible Preferred Stock		Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount	Shares	Amount	Shares	Amount				
Balances, December 31, 2014	—	$ —	—	$ —	737,528	$ 11	$ 96,259	$ (3)	$ (89,147)	$ 7,120
Issuance of Series E convertible preferred stock and common stock, net	2,201.493	—	—	—	102,800	2	4,681	—	—	4,683
Beneficial conversion feature of Series E convertible preferred stock	—	(890)	—	—	—	—	890	—	—	—
Deemed dividends from issuance of Series E convertible preferred stock	—	890	—	—	—	—	—	—	(890)	—
Deemed dividends from modification of Series E convertible preferred stock and warrants	—	—	—	—	—	—	168	—	(168)	—
Vesting of restricted stock units	—	—	—	—	5,046	—	—	—	—	—
Issuance costs from various securities filings	—	—	—	—	—	—	(34)	—	—	(34)
Non-cash stock compensation	—	—	—	—	—	—	687	—	—	687
Unrealized gain on available-for-sale investments	—	—	—	—	—	—	—	1	—	1
Net loss	—	—	—	—	—	—	—	—	(6,601)	(6,601)
Balances, December 31, 2015	2,201.493	—	—	—	845,374	13	102,651	(2)	(96,806)	5,856
Conversion of Series E convertible preferred stock	(16)	—	—	—	599	—	—	—	—	—
Premium paid to redeem Series E convertible preferred stock	—	—	—	—	—	—	—	—	(656)	(656)
Issuance of Series F convertible preferred stock and warrants, net	—	—	8,000.0	—	—	—	6,885	—	—	6,885
Beneficial conversion feature of Series F convertible preferred stock	—	—	—	(1,877)	—	—	1,877	—	—	—
Deemed dividends from issuance of Series F convertible preferred stock	—	—	—	1,877	—	—	—	—	(1,877)	—
Redemption of Series E convertible preferred stock	(2,185.769)	—	—	—	—	—	(2,186)	—	—	(2,186)
Reversal of Series E deemed dividend	—	—	—	—	—	—	(890)	—	890	—
Conversions of Series F convertible preferred stock	—	—	(7,031.0)	—	1,816,827	2	(2)	—	—	—
Vesting of restricted stock units	—	—	—	—	10,956	—	—	—	—	—
Non-cash stock compensation	—	—	—	—	—	—	733	—	—	733
Unrealized gain on available-for-sale investments	—	—	—	—	—	—	—	2	—	2
Net loss	—	—	—	—	—	—	—	—	(4,140)	(4,140)
Balances, December 31, 2016	—	$ —	969.0	$ —	2,673,756	$ 15	$109,068	$ —	$ (102,589)	$ 6,494

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

COMBIMATRIX CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2016 and 2015
(In thousands)

	For the Years Ended December 31, 2016	2015
Operating activities:		
Net loss	$ (4,140)	$(6,601)
Adjustments to reconcile net loss to net cash flows from operating activities:		
Depreciation and amortization	258	297
Non-cash stock compensation	733	687
Provision for bad debts	465	277
Impairment of cost-basis investment	—	97
Changes in assets and liabilities:		
Accounts receivable	(1,134)	(823)
Supplies, prepaid expenses and other assets	(180)	(83)
Accounts payable, accrued expenses and other	98	419
Net cash flows from operating activities	(3,900)	(5,730)
Investing activities:		
Purchase of property and equipment	(157)	(72)
Purchase of available-for-sale investments	(8,497)	(4,000)
Sale of available-for-sale investments	10,747	4,980
Net cash flows from investing activities	2,093	908
Financing activities:		
Proceeds from issuance of Series F convertible preferred stock and common stock warrants	8,000	—
Costs from issuance of Series F convertible preferred stock and common stock warrants	(1,089)	(26)
Repurchase of Series E convertible preferred stock and dividends	(2,842)	—
Proceeds from issuance of Series E convertible preferred stock, common stock and warrants	—	4,900
Costs from issuance of Series E convertible preferred stock, common stock and warrants	—	(217)
Issuance costs from various securities filings	—	(8)
Repayments of long-term debt	(188)	(184)
Net cash flows from financing activities	3,881	4,465
Increase (decrease) in cash and cash equivalents	2,074	(357)
Cash and cash equivalents, beginning	653	1,010
Cash and cash equivalents, ending	$ 2,727	$ 653
Cash paid in interest expense	$ 26	$ 40
Non-cash investing and financing activities:		
Property and equipment purchased on capital leases	$ 40	$ 72
Deemed dividends from issuing Series F convertible preferred stock and warrants	$ 1,877	$ —
Deemed dividends from issuing and modifying Series E convertible preferred stock and warrants	$ (890)	$ 1,058
Warrant modifications recognized as non-cash Series E offering-related costs	$ —	$ 336
Tenant improvements recognized as deferred rent	$ —	$ 164

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

COMBIMATRIX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. DESCRIPTION OF BUSINESS

CombiMatrix Corporation (the "Company," "we," "us" and "our") was originally incorporated in October 1995 as a California corporation and later reincorporated as a Delaware corporation in September 2000. In December 2002, we merged with, and became a wholly owned subsidiary of Acacia Research Corporation ("Acacia"), and in August 2007, we split-off from Acacia and became publicly traded on The NASDAQ Stock Market. As a result of the split-off, we ceased to be a subsidiary of, or affiliated with, Acacia.

Description of the Company

We are a family health-focused clinical molecular diagnostic laboratory specializing in pre-implantation genetic screening, prenatal diagnosis, miscarriage analysis, and pediatric developmental disorders. We strive to provide best-in-class clinical laboratory support to healthcare professionals, allowing them to maximize the clinical utility of their patients' test results and to optimize patient care. Our testing focuses on advanced technologies, including single nucleotide polymorphism, or SNP, chromosomal microarray analysis, next generation sequencing, fluorescent in situ hybridization and high resolution karyotyping. Our approach to testing is to offer sophisticated technology along with high-quality clinical support to our ordering physicians and their patients. Our laboratory facilities and corporate headquarters are located in Irvine, California.

We also own a one-third minority interest in Leuchemix, Inc. ("Leuchemix"), a private drug development company focused on developing a series of compounds to address a number of oncology-related diseases.

Reverse Stock Split

On January 29, 2016, we filed a Certificate of Amendment to our Certificate of Incorporation with the Secretary of State of the State of Delaware to effect a reverse split of our common stock at a ratio of one-for-fifteen (the "Reverse Stock Split"), which became effective at the close of business on that day. As a result, each share of CombiMatrix common stock outstanding as of January 29, 2016 was automatically changed into one-fifteenth of a share of common stock. No fractional shares were issued in connection with the Reverse Stock Split, and cash paid to stockholders for potential fractional shares was insignificant. The number of shares of common stock subject to outstanding options, warrants and convertible securities were also reduced by a factor of fifteen as of January 29, 2016. All historical share and per share amounts reflected throughout this document have been adjusted to reflect the Reverse Stock Split. The authorized number of shares and the par value per share of our common stock were not affected by the Reverse Stock Split.

Going Concern Analysis

We have a history of incurring net losses and net operating cash flow deficits. We are also deploying new technologies and continue to develop new and improve existing commercial diagnostic testing services and related technologies. As a result, these conditions raised substantial doubt regarding our ability to continue as a going concern beyond 2017. However, as of December 31, 2016, we had cash, cash equivalents and short-term investments of $3.7 million. Also, the combination of continued revenue and cash reimbursement growth as we have seen over the past several quarters, coupled with improved gross margins and cost containment of expenses leads management to believe that it is probable that the Company's cash resources will be sufficient to meet our cash requirements through and beyond the fourth quarter of 2017, where we anticipate to achieve cash flow break-even status. If necessary, management also believes that it is probable that external sources of debt and/or equity financing could be obtained based on management's history of being able to raise capital coupled with current favorable market conditions. As a result of both management's plans and current favorable trends in improving cash flow, we believe the initial conditions which raised substantial doubt regarding our ability to continue as a going concern have been alleviated. Therefore, the accompanying consolidated financial statements have been prepared assuming that we will continue as a going concern.

The consolidated financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from the matters discussed herein. While we believe in the viability of our strategy to generate sufficient revenue and cash reimbursement, control costs and our ability to raise additional funds if necessary, there can be no assurances to that effect. Our ability to continue as a going concern is dependent upon our ability to further implement our business plan, generate sufficient revenues and cash reimbursement and to control operating expenses.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounting Principles and Fiscal Year End . The consolidated financial statements and accompanying notes are prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles ("GAAP"). We have a December 31 year-end.

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 amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Basis of Presentation and Principles of Consolidation . The accompanying consolidated financial statements include the accounts of the Company and our wholly owned subsidiaries. Investments for which we possess the power to direct or cause the direction of the management and policies, either through majority ownership or other means, are accounted for under the consolidation method. Material intercompany transactions and balances have been eliminated in consolidation. Investments in companies in which we maintain an ownership interest of 20% to 50% or exercise significant influence over operating and financial policies are accounted for under the equity method. The cost method is used where we maintain ownership interests of less than 20% and do not exercise significant influence over the investee.

Revenue Recognition . We recognize revenue when (i) persuasive evidence of an arrangement exists, (ii) delivery has occurred or services have been performed, (iii) amounts are fixed or determinable and (iv) collectability of amounts is reasonably assured.

Service revenues from providing diagnostic tests are recognized when the testing process is complete and test results are reported to the ordering physician or clinic. These diagnostic services are billed to various payors, including third-party commercial insurance companies, healthcare institutions, government payors including various state Medicaid programs, and individuals. We report revenues from contracted payors based on a contractual rate, or in the case of state Medicaid contracts, published fee schedules for our tests. We report revenues from non-contracted payors based on the amounts expected to be collected. The differences between the amounts billed and the amounts expected to be collected from non-contracted payors are recorded as contractual allowances to arrive at net recognized revenues. The expected revenues from non-contracted payors are based on the historical collection experience of each payor or payor group, as appropriate, and also take into account recent collection trends. In each reporting period, we review our historical collection experience for non-contracted payors and adjust our expected revenues for current and subsequent periods accordingly. We also recognize additional revenue from actual cash payments that exceed amounts initially recognized, in the period the payments are received. Because a substantial portion of our revenues is from non-contracted third-party payors, it is likely that we will be required to make adjustments to accounting estimates with respect to contractual allowances in the future, which may positively or adversely affect our results of operations. In all cases described above, we report revenues net of any applicable statutory taxes collected from customers, as applicable. For the years ended December 31, 2016 and 2015, no single customer represented 10% or more of our revenues.

Cash Equivalents and Short-Term Investments . We consider all highly liquid investments purchased with maturities of three months or less when purchased to be cash equivalents. Short-term investments consist of fixed income investments with maturities between three and 12 months and other highly liquid investments that can be readily purchased or sold using established markets. These investments are classified as available-for-sale and are reported at fair value on the Company's consolidated balance sheets. Unrealized holding gains and losses are reported within comprehensive loss in the consolidated statements of comprehensive loss. Fair value is based on available market information including quoted market prices, broker or dealer quotations or other observable inputs. If a decline in the fair value of a short-term investment below our cost basis is determined to be other than temporary, such investment is written down to its estimated fair value as a new cost basis and the amount of the write-down is included in earnings as an impairment charge. To date, no permanent impairment charges have been realized or recorded.

Fair Value Measurements. We measure fair value as an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that is determined based on assumptions that market participants would use in pricing an asset or liability. We utilize a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

- Level 1: Observable market inputs such as quoted prices in active markets;
- Level 2: Observable market inputs, other than the quoted prices in active markets, that are observable either directly or indirectly, such as quoted prices for similar assets or liabilities; and
- Level 3: Unobservable inputs where there is little or no market data, which require the reporting entity to develop its own assumptions.

We classify our cash equivalents within the fair value hierarchy as Level 1 as these assets are valued using quoted prices in active markets for identical assets at the measurement date. We classify short-term investments within the fair value hierarchy as Level 2, primarily utilizing broker quotes in a non-active market for valuation of these investments. Financial instruments that contain valuation inputs that are not readily determinable from active markets or from similar securities trading in active markets, such as derivative financial instruments, are classified within the fair value hierarchy as Level 3.

Impairment of Long-Lived Assets . Long-lived assets and intangible assets are reviewed for potential impairment when events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. In the event the sum of the expected undiscounted future cash flows resulting from the use of the asset is less than the carrying amount of the asset, an impairment loss equal to the excess of the asset's carrying value over its fair value is recorded. If an asset is determined to be impaired, the loss is measured based on quoted market prices in active markets, if available. If quoted market prices are not available, the estimate of fair value is based on various valuation techniques, including a discounted value of estimated future cash flows.

During 2015, management determined that the carrying value of a cost-basis investment in the stock of a privately held company was impaired, resulting in a one-time, non-cash impairment charge of $97,000 for the year ended December 31, 2015.

Derivative Financial Instruments. We evaluate financial instruments for freestanding or embedded derivatives. Derivative instruments that do not qualify for permanent equity classification are recorded as liabilities at fair value, with changes in value recognized as other income (expense) in the consolidated statements of operations in the period of change. Derivative liabilities are categorized as either short-term or long-term based upon management's estimates as to when the derivative instrument may be realized or based upon the holder's ability to realize the instrument.

Concentration of Credit Risks . Cash and cash equivalents are invested in deposits with certain financial institutions and may, at times, exceed federally insured limits. We have not experienced any significant losses on our deposits of cash and cash equivalents. We do not believe that we are exposed to significant credit risk on cash and cash equivalents or on our short-term investments. Accounts receivable from two commercial insurance carriers of $441,000 for Carrier A and $402,000 for Carrier B exceeded 10% of our total accounts receivable balance as of December 31, 2016, and accounts receivable from Carrier B of $316,000 exceeded 10% of our total accounts receivable balance as of December 31, 2015.

Substantially all of the components and raw materials used in providing our testing services, including array slides and reagents, are currently provided to us from a limited number of sources or in some cases from a single source. Although we believe that alternative sources for those components and raw materials are available, any supply interruption in a sole-sourced component or raw material might result in up to a several-month production delay and materially harm our ability to provide testing services until a new source of supply, if any, could be located and qualified.

Accounts Receivable and Allowance for Doubtful Accounts. For our contracted third-party payors, governmental payors or direct-bill customers, accounts receivable are stated at principal amounts and are primarily comprised of amounts contractually due from customers for services performed. For our non-contracted customers, accounts receivable are stated at amounts expected to be collected based on historical collection experience with the third-party payor. The payment realization cycle for certain governmental and commercial insurance payors can be lengthy, involving denial, appeal and adjudication processes, and is subject to periodic adjustments that may be significant. Accounts receivable are periodically written off when identified as uncollectible after appropriate collection efforts have been exhausted. Such write-offs increase the contractual allowances (which reduce revenues) for those accounts in the period of adjustment. Collection of governmental, private health insurer, and client receivables are generally a function of providing complete and correct billing information to the insurers and clients within the filing deadlines required by each payor.

Collection of receivables due from patients and private-pay clients is generally subject to increased credit risk due to credit-worthiness or inability to pay. For these customers, an allowance for doubtful accounts is recorded for estimated uncollectible amounts, and involves significant assumptions and judgments. Specifically, the allowance for doubtful accounts is adjusted periodically and is principally based upon specific identification of past due or disputed accounts. We also review the age of receivables to assess our allowance at each period end. Additions to the allowance for doubtful accounts are charged to bad debt expense as a component of general and administrative expenses in the consolidated statements of operations.

Supplies . Supplies inventory, which consists primarily of raw materials to be used in the production of the arrays we use for our tests, is stated at the lower of cost or net realizable value using the first-in, first-out method.

Property and Equipment . Property and equipment is recorded at cost. Additions and improvements that increase the value or extend the life of an asset are capitalized. Maintenance and repairs are expensed as incurred. Disposals are removed at cost less accumulated depreciation or amortization and any gain or loss from disposition is reflected in the consolidated statements of operations in the period of disposition. Depreciation is computed on a straight-line basis over the following estimated useful lives of the assets:

Laboratory equipment	3 to 5 years
Furniture and fixtures	5 to 7 years
Computer hardware and software	3 years
Leasehold improvements	Lesser of lease term or useful life of improvement

Certain leasehold improvements, furniture and equipment held under capital leases are classified as property and equipment and are amortized over their useful lives using the straight-line method. Lease amortization is included in depreciation expense.

Stock-Based Compensation . The compensation cost for all employee stock-based awards is measured at the grant date, based on the fair value of the award, and is recognized as an expense, on a straight-line basis, over the employee's requisite service period (generally the vesting period of the equity award) which is generally four years. The fair value of each stock option award is estimated on the date of grant using a Black-Scholes option valuation model. The fair value of each restricted stock unit ("RSU") award is based on the number of shares granted and the closing price of our common stock as reported on the NASDAQ Capital Market on the date of grant. Stock-based compensation expense is recognized only for those awards that are expected to vest using an estimated forfeiture rate. We estimate pre-vesting option forfeitures at the time of grant and reflect the impact of estimated pre-vesting option forfeitures in compensation expense recognized.

The weighted average assumptions used to estimate the fair value of stock option awards granted during the year-ended December 31, 2015 are noted in the table below. There were no stock option awards granted to our employees during 2016, however as noted in Note 12, there were 6,832 stock options granted to non-employee consultants. Expected volatility is based on the separate historical volatility of the market prices of our common stock. The risk-free rate for the expected term, using the simplified method, of the option is based on the U.S. Treasury yield curve in effect at the time of grant.

	For the Years Ended December 31, 2016	2015
Risk free interest rate	—	1.8%
Volatility	—	107.3%
Expected term	—	6.3
Expected dividends	—	0%

Stock-based compensation expense for 2016 and 2015 attributable to our functional expense categories from stock option and RSU awards vesting during the periods presented was as follows (in thousands):

	For the Years Ended December 31, 2016	2015
Cost of services	$ 41	$ 32
Research and development	—	—
Sales and marketing	76	61
General and administrative	616	594
Total non-cash stock compensation	$ 733	$ 687

Research and Development Expenses . Prior to launching a new test or modifying and upgrading an existing test, extensive laboratory validations consistent with the various regulations that govern our industry must be performed. As a result, research and development expenses include labor, laboratory supplies and other development costs required to maintain and improve our existing suite of diagnostic test offerings as well as to investigate and develop new tests. Costs to acquire technologies which are utilized in research and development and which have no alternative future use are expensed when incurred. Software developed for use in our services is expensed as incurred until both (i) technological feasibility for the software has been established and (ii) all research and development activities for the other components of the system have been completed. We believe these criteria are met after we have received evaluations from third-party test sites and completed any resulting modifications to the services. Expenditures to date have been classified as research and development expense.

Advertising. Costs associated with marketing and advertising of our services are expensed as incurred. For the years ended December 31, 2016 and 2015, we incurred marketing and advertising expenses of $220,000 and $366,000, respectively.

Income Taxes . We recognize income taxes on an accrual basis based on tax positions taken or expected to be taken in our tax returns. A tax position is defined as a position in a previously filed tax return or a position expected to be taken in a future tax filing that is reflected in measuring current or deferred income tax assets and liabilities. Tax positions are recognized only when it is more likely than not (i.e., likelihood of greater than 50%), based on technical merits, that the position would be sustained upon examination by taxing authorities. Tax positions that meet the more likely than not threshold are measured using a probability-weighted approach as the largest amount of tax benefit that is greater than 50% likely of being realized upon settlement. Income taxes are accounted for using an asset and liability approach that requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been recognized in our consolidated financial statements or tax returns. A valuation allowance is established to reduce deferred tax assets if all, or some portion, of such assets will more than likely not be realized. Should they occur, our policy is to classify interest and penalties related to tax positions as income tax expense. Since our inception, no such interest or penalties have been incurred, however.

Other Comprehensive Loss. Components of comprehensive loss include unrealized gains and losses on short-term investments and are included in the consolidated statements of comprehensive loss.

Segments. We have determined that we operate in one segment for financial reporting purposes.

Net Loss Per Share . Basic and diluted net loss per share has been computed by dividing the net loss by the weighted average number of common shares issued and outstanding during the periods presented. Options and warrants to purchase CombiMatrix stock as well as preferred stock convertible into shares of common stock are anti-dilutive and therefore are not included in the determination of the diluted net loss per share. The following table reflects the excluded dilutive securities:

	For the Years Ended December 31,	
	2016	**2015**
Common stock options	64,633	69,995
Restricted stock units	116,301	38,795
Common stock warrants	2,701,754	643,317
Series E preferred stock convertible into common stock	—	83,871
Series F preferred stock convertible into common stock	250,236	—
Excluded potentially dilutive securities	3,132,924	835,978

Recent Accounting Pronouncements. In November 2016, the Financial Accounting Standards Board (“FASB”) issued new accounting guidance governing restricted cash, which requires entities to show the changes in the total of cash, cash equivalents, restricted cash and restricted cash equivalents in the statement of cash flows. As a result, entities will no longer present transfers between cash and cash equivalents and restricted cash and restricted cash equivalents in the statement of cash flows. The amendments in this guidance should be applied using a retrospective transition method to each period presented. This guidance is effective for annual periods beginning after December 15, 2017, and interim periods within those fiscal years with early adoption permitted, including adoption in an interim period. We do not expect the adoption of this guidance to have a material impact on our consolidated statements of cash flows.

In August 2016, the Financial Accounting Standards Board ("FASB") issued new accounting guidance aimed at reducing the existing diversity in GAAP regarding how certain cash receipts and cash payments are classified in the statement of cash flows. The new guidance is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is also permitted. We do not expect the adoption of this guidance to have a material impact on our consolidated statements of cash flows.

In March 2016, the FASB issued guidance regarding employee share-based payment accounting. The guidance is intended to simplify several areas of accounting for share-based compensation arrangements, including the income tax impact, classification on the statement of cash flows and provides the choice for companies to estimate forfeitures during the vesting period of an award (which is required under current GAAP) or recognize forfeitures at the time an award is canceled and forfeited. The standard is effective for us on January 1, 2017. We have elected to change our policy regarding forfeitures to recognize if and when an award is canceled and forfeited rather than estimating forfeitures up front. We have implemented this policy change using the modified retrospective approach, on January 1, 2017. The impact from implementing this policy change was to reduce retained earnings and increase additional paid-in capital by $57,000.

In February 2016, the FASB issued guidance regarding leases, which requires lessees to recognize on the balance sheet a right-of-use asset, representing their right to use the underlying asset for the lease term, and a lease liability for all leases with terms greater than 12 months. The guidance also requires qualitative and quantitative disclosures designed to assess the amount, timing and uncertainty of cash flows arising from leases. The guidance requires the use of a modified retrospective transition approach, which includes a number of optional practical expedients that entities may elect to apply. The guidance is effective for us beginning January 1, 2019, and we are currently evaluating the impact that this guidance will have on our consolidated financial statements.

In January 2016, the FASB issued accounting guidance regarding recognition and measurement of financial assets and financial liabilities. This guidance enhances the reporting model for financial instruments, which includes amendments to address aspects of recognition, measurement, presentation and disclosure. The guidance is effective for annual reporting periods beginning after December 15, 2017, and interim periods within those annual periods. We do not expect the adoption of this guidance to have a significant impact on our consolidated financial statements.

In July 2015, the FASB issued accounting guidance regarding simplifying the measurement of inventory. The new guidance applies only to inventory for which cost is determined by methods other than last-in, first-out and the retail inventory method, which includes inventory that is measured using first-in, first-out or average cost. Inventory within the scope of this standard is required to be measured at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. The new standard will be effective for us on January 1, 2017. We do not expect the adoption of this guidance to have a material impact on our consolidated financial statements.

In May 2014, the FASB issued new accounting guidance regarding revenue recognition from contracts with customers, which when effective will supersede existing revenue recognition requirements and will eliminate most industry-specific guidance from GAAP. The core principle of the new guidance is to require an entity to recognize as revenue the amount that reflects the consideration to which it expects to be entitled in exchange for goods or services as it transfers control to its customers. The new guidance requires additional qualitative and quantitative disclosures about the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. An entity can apply the new guidance retrospectively to each prior reporting period presented (i.e., the full retrospective method) or retrospectively with the cumulative effect of initially applying the standard recognized at the date of initial application in retained earnings. As originally issued, the new revenue recognition standard would be effective for us beginning January 1, 2017. However, in 2015, the FASB voted to defer the effective date of the new guidance for one year. We have begun a detailed assessment of the impact that this guidance will have on our consolidated financial statements, and our analysis is currently ongoing. We will adopt the new guidance beginning January 2018.

Reclassifications . Certain comparative figures in 2015 have been reclassified to conform to the current year's presentation. These reclassifications were immaterial, both individually and in the aggregate.

3. CASH AND SHORT-TERM INVESTMENTS

As of December 31, 2016 and 2015, we held $2.7 million and $653,000 in cash and cash equivalents and $1.0 million and $3.2 million of short-term investments, respectively, which are reported at fair value. Cash, cash equivalents and short-term investments consisted of the following as of December 31, 2016 and 2015 (in thousands):

	December 31, 2016				December 31, 2015			
		Unrealized		Fair		Unrealized		Fair
	Cost	Gain	Loss	Value	Cost	Gain	Loss	Value
Cash and money market securities	$ 2,727	$—	$—	$ 2,727	$ 653	$—	$—	$ 653
Commercial paper	500	—	—	500	—	—	—	—
Certificates of deposit	500	—	—	500	3,250	—	(2)	3,248
	$ 3,727	$—	$—	$ 3,727	$ 3,903	$—	$ (2)	$ 3,901

There were no realized gains or losses for the years ended December 31, 2016 and 2015.

4. FAIR VALUE MEASUREMENTS

The following table summarizes, for each major category of financial assets or liabilities measured on a recurring basis, the respective fair value at December 31, 2016 and 2015, and the classification by level of input within the fair value hierarchy defined above (in thousands):

		Fair Value Measurements		
December 31, 2016	Total	Level 1	Level 2	Level 3
Cash equivalents	$1,735	$1,735	$ —	$ —
Short-term investments	1,000	—	1,000	—
Total	$2,735	$1,735	$1,000	$ —

		Fair Value Measurements		
December 31, 2015	Total	Level 1	Level 2	Level 3
Cash equivalents	$ 99	$ 99	$ —	$ —
Short-term investments	3,248	—	3,248	—
Total	$3,347	$ 99	$3,248	$ —

5. PROPERTY AND EQUIPMENT

Property and equipment consists of the following (in thousands):

	December 31, 2016	December 31, 2015
Laboratory equipment	$ 1,677	$ 1,547
Computer hardware and software	265	261
Furniture and fixtures	47	45
Leasehold improvements	396	396
	2,385	2,249
Less—accumulated depreciation and amortization	(1,788)	(1,558)
	$ 597	$ 691

Depreciation and amortization expense was $290,000 and $276,000 for the years ended December 31, 2016 and 2015, respectively. The net book value of assets under capital lease obligations was $129,000 and $156,000 as of December 31, 2016 and 2015, respectively.

6. BALANCE SHEET COMPONENTS

Accounts payable, accrued expenses and other accrued expenses consist of the following (in thousands):

	December 31, 2016	December 31, 2015
Accounts payable	$ 542	$ 713
Payroll and other employee benefits	540	324
Accrued paid time off	272	237
Royalties	322	285
Other accrued expenses	13	32
	$1,689	$1,591

7. INCOME TAXES

The tax effects of temporary differences and carryforwards that give rise to significant portions of deferred assets and liabilities consist of the following (in thousands):

	December 31, 2016	December 31, 2015
Deferred tax assets:		
Deferred settlement costs	$ 180	$ 492
Stock-based compensation	674	543
Accrued liabilities and other	509	516
Net operating loss carryforwards and credits	68,186	67,350
Total deferred tax assets	69,549	68,901
Less: valuation allowance	(69,528)	(68,891)
Deferred tax assets, net of valuation allowance	21	10
Deferred tax liabilities:		
Depreciation and amortization	(21)	(10)
Net deferred tax liability	$ —	$ —

A reconciliation of the federal statutory income tax rate and the effective income tax rate is as follows:

	December 31,	
	2016	2015
Statutory federal tax rate	(34%)	(34%)
Impact on state tax rates	(2%)	(2%)
Stock compensation	3%	0%
Valuation allowance	32%	34%
Other non deductible permanent items	1%	2%
	0%	0%

At December 31, 2016 and 2015, we had net deferred tax assets totaling approximately $69.5 million and $68.9 million, respectively. These assets are offset by valuation allowances due to our determination that the criteria for asset recognition have not been met, as well as by deferred tax liabilities. At December 31, 2016, we had federal net operating loss carryforwards of approximately $180 million, which begin to expire in 2017 through 2035. In addition, we have tax credit carryforwards of approximately $5.2 million. Utilization of net operating loss carryforwards and tax credit carryforwards are subject to the "change of ownership" provisions under Section 382 of the Internal Revenue Code. The amount of such limitations has not been determined. Also, given that our net operating losses have yet to be utilized, all previous tax years remain open to examination by Federal authorities and other jurisdictions in which we operate. We have no unrecognized tax benefits as of December 31, 2016 and 2015.

8. SECURED PROMISSORY NOTE

On May 20, 2014 ("Execution Date"), we executed a secured promissory note (the "Note") with ACC Investment Ltd. in the amount of $350,000, payable in equal amortized payments over a thirty-six month period (the "Term") from the Execution Date. The Note bears an annual interest rate of 10% and is secured by certain laboratory equipment used in our microarray services business. Legal and other closing costs totaling $22,000 were capitalized with the Note and are being amortized over the Term as interest expense. As of December 31, 2016 and 2015, the fair value of the Note approximated its carrying value. As of December 31, 2016 and 2015, components of the Note were as follows (in thousands):

	December 31,	
	2016	2015
Carrying value	$ 44	$ 168
Unamortized legal and closing costs	(2)	(10)
	42	158
Less- current portion	(42)	(124)
Long-term portion	$—	$ 34

9. COMMITMENTS AND CONTINGENCIES

Leases

On October 24, 2014, we entered into an Amendment No. 6 to the Lease (the "Amendment") with PPC Goddard Investment, LLC (the "Landlord"), concerning our existing building lease for laboratory space and corporate offices in Irvine, California. The Amendment, in part (i) extends the term of the Lease by five years until January 31, 2020; (ii) provides for monthly base rent (excluding allocated common area expenses) of $1.00 per square foot per month for the first year, increasing by $0.05 per year thereafter throughout the term of the lease to a maximum of $1.20 per square foot per month in the fifth year of the lease; (iii) provides for certain tenant improvements to be provided by the Landlord at no cost to us; (iv) at our choosing, provides for an early termination after thirty-six months upon payment by us of the Landlord's unamortized tenant improvement cost and unamortized brokerage commissions payable in connection with the Amendment at an interest rate of eight percent; and (v) provides for a period of abated rent for the first three months of the renewal period (or February 1, 2015 through April 30, 2015). Pursuant to the Amendment, the monthly base rent together with the current estimated monthly common area expense of $0.85 per square foot will result in an aggregate monthly expense of approximately $22,500 for the first year, assuming no increase in the monthly common area expense, and increasing to approximately $25,000 per month for the fifth year, assuming we do not exercise our option to terminate the lease after thirty-six months, and assuming no increase in the monthly common area expense.

At December 31, 2016, we had nine capital leases for laboratory equipment with original purchase amounts totaling $219,000 and with useful lives of five years. As of December 31, 2016, the remaining lease obligations (including interest charges) were $118,000 with minimum future lease payments shown below. The weighted average interest rate on the capital lease obligations was 7.8%, based on remaining lease obligations as of December 31, 2016. The fair value of the capital lease obligations was not significantly different from their carrying amounts for all periods presented.

Future minimum lease payments for all of our facilities and leased equipment are as follows (in thousands):

Years ending December 31:	Operating Leases	Capital Leases	Total
2017	$ 160	$ 65	$225
2018	167	37	204
2019	175	16	191
2020	15	—	15
Total minimum lease payments	$ 517	118	$635
Less- imputed interest		(10)	
Present value of capital lease obligations		108	
Less- current portion		(58)	
Capital lease obligations, net of current portion		$ 50	

Rent expense for the years ended December 31, 2016 and 2015 was $256,000 and $258,000, respectively.

Executive Severance

We provide certain severance benefits such that if an executive officer of CombiMatrix Corporation is terminated for other than cause, death or disability, the executive will receive payments equal to three months' base salary plus medical and dental benefits. In addition, we have implemented a Restated Executive Change of Control Severance Plan (as amended, the "Severance Plan") that affects certain of our senior management-level employees who are classified as "Section 16 Officers" of the Company. Pursuant to the Severance Plan, if a participating employee is involuntarily terminated (other than for death, disability or for cause) or resigns for "good reason" (as defined in the Severance Plan) during the two-year period following a "change of control" (as defined in the Severance Plan) of the Company, then, subject to execution of a release of claims against the

Company, the employee will be entitled to receive: (i) one-half times annual base salary (one times annual base salary for the CEO); (ii) immediate vesting of outstanding compensatory equity awards; and (iii) payment of COBRA premiums for the participating employee and eligible dependents for a pre-determined period of time. Payment of benefits under the Severance Plan will be limited by provisions contained in Section 409A of the U.S. Internal Revenue Code. The Severance Plan is administered by a plan administrator, which initially is the Compensation Committee of the Board of Directors. In order to participate in the Severance Plan, an eligible employee must waive any prior retention or severance agreements. The Severance Plan automatically renews annually unless terminated upon 12 months prior written notice.

On December 2, 2015, our Board of Directors adopted a Transaction Bonus Plan (the “Transaction Bonus Plan”). The Transaction Bonus Plan provides for certain bonus payments to be made, upon the consummation of a qualifying change of control transaction, to certain employees of the Company as shall be determined from time to time by the Compensation Committee of our Board of Directors. The aggregate value of the bonuses payable under the Transaction Bonus Plan shall be the greater of (i) $1,000,000 or (ii) ten percent of the net proceeds received in connection with a qualifying change of control transaction, and the percentage of such bonus pool awarded to each eligible participant shall be determined from time to time by our Compensation Committee.

Litigation

In 2002, we entered into a settlement agreement with Nanogen, Inc. (“Nanogen”) to settle all pending litigation between the parties. Pursuant to the terms of the settlement agreement, we agreed to make quarterly payments to Nanogen equal to 12.5% of total sales of products developed by us and our affiliates based on the patents that had been in dispute in the litigation, up to an annual maximum amount of $1.5 million. The minimum quarterly payments under the settlement agreement are $25,000 per quarter until the patents expire in 2018. Royalty expenses recognized under the agreement were $100,000 in each of the years ended December 31, 2016 and 2015, and are included in patent amortization and royalties in the accompanying consolidated statements of operations.

From time to time, we are subject to other claims and legal actions that arise in the ordinary course of business. We believe that the ultimate liability with respect to these claims and legal actions, if any, will not have a material effect on our financial position, results of operations or cash flows. Any legal costs resulting from claims or legal actions are expensed as incurred.

10. RETIREMENT SAVINGS PLAN

We have an employee savings and retirement plan under section 401(k) of the Internal Revenue Code (the “Retirement Plan”). The Retirement Plan is a defined contribution plan in which eligible employees may elect to have a percentage of their compensation contributed to the Retirement Plan, subject to certain guidelines issued by the Internal Revenue Service. We may contribute to the Retirement Plan at the discretion of our board of directors. There were no contributions made by us during any of the years presented.

11. STOCKHOLDERS’ EQUITY

On April 28, 2015, our stockholders approved all ballot measures of a special meeting proxy, which included the approval to increase our authorized capital stock from 25 million shares to 50 million shares. Our authorized capital was not affected by the Reverse Stock Split.

On June 17, 2015, our stockholders approved all ballot measures of our annual meeting proxy, which included an increase to the common stock share reserves under our 2006 Stock Incentive plan from 133,333 shares to 200,000 shares.

As previously discussed above, on January 29, 2016, we filed a Certificate of Amendment to our Certificate of Incorporation with the Secretary of State of the State of Delaware to effect the one-for-fifteen Reverse Stock Split. The following discussion regarding shares of common stock and per share amounts are reflective of the Reverse Stock Split.

Series A through E Convertible Preferred Stock and Warrant Financings

Between 2012 and 2015, we executed several financing transactions whereby we issued convertible preferred stock and warrants to purchase common stock to investors. As of December 31, 2016, none of the Series A through E convertible preferred stock remained outstanding. For as long as the Series A warrants remain unexercised through their expiration date, except under certain permitted circumstances, we may not issue, or enter into any agreement to issue, common stock or common stock equivalents at a price per share below the $73.65 exercise price of the Series A warrants, unless waivers from the Series A investors are obtained. Until the time that less than 7.5% of the Series B, C and E warrants remain unexercised through their expiration date, except under certain permitted circumstances, we may not issue, or enter into any agreement to issue, common stock or common stock equivalents at prices per share below the $29.55, $29.55 and $32.51 exercise prices of the Series B, C and E warrants, respectively, unless waivers from the Series B, C and E investors are obtained. In addition, until there are no longer Series A, C and E warrants outstanding we may not sell any variable rate securities except for certain exempt issuances.

Series E Convertible Preferred Stock Financing

On February 13, 2015, we and certain accredited institutional pre-existing investors (the “Series E Investors”) entered into a securities purchase agreement (the “Series E Purchase Agreement”), pursuant to which we sold 102,800 shares of common stock at a price of $26.25 per share, 2,201.493 shares of Series E 6% Convertible Preferred Stock (the “Series E Preferred Stock”) and warrants to purchase 46,676 shares of common stock initially at an exercise price of $29.55 per share, which was the consolidated closing bid price of our common stock on NASDAQ immediately prior to entering into the Series E Purchase Agreement (the “Series E Warrants”, and the transactions contemplated by the Series E Purchase Agreement, the “Series E Financing”). The Series E Preferred Stock and Series E Warrants were sold in a fixed combination consisting of one share of Series E Preferred Stock and a Series E Warrant to purchase approximately 21.1977 shares of common stock. Each fixed combination of Series E Preferred Stock and Series E Warrants were sold at a price of $1,000. The Series E Preferred Stock sold was convertible into 83,871 shares of common stock at an initial conversion price of $26.25 per share. The closing under the Series E Purchase Agreement occurred on February 18, 2015 (the “Series E Closing Date”), where we received gross proceeds of $4.9 million from the Series E Investors. After closing-related costs and expenses, net proceeds from the Series E Financing were approximately $4.7 million. Given that the effective conversion price of the Series E Preferred Stock, inclusive of amounts allocated to common stock and Series E Warrants, was below the closing market price of our common stock at the time of the Series E Closing Date, we recognized a beneficial conversion feature in the amount of $890,000. Since the Series E Preferred Stock was immediately convertible into common stock, the beneficial conversion feature was treated as a deemed dividend charged to retained earnings.

The Series E Warrants issued have a 5 $1/2$ year term and have a cashless exercise provision in the event there is no effective registration statement covering the common stock issuable upon exercise of the Series E Warrants. The Series E Warrants are not subject to price based anti-dilution protection. See below for modifications made to the Series E Preferred Stock and the Series E Warrants.

Private Placement Warrant Financing

Substantially concurrently with the closing of the Series E Financing, on February 13, 2015, we entered into a separate securities purchase agreement (the "Warrant Purchase Agreement") with selected accredited institutional pre-existing investors (the "Private Placement Investors"), pursuant to which we agreed to sell to the Private Placement Investors warrants to purchase 102,678 shares of Common Stock (the "Private Placement Warrants", and the transactions contemplated by the Warrant Purchase Agreement, the "Warrant Financing"). In consideration of an aggregate of $1,000, we had agreed to sell the Private Placement Warrants, which would not be issued unless and until our stockholders approved amending our Certificate of Incorporation to increase our authorized common stock to permit the issuance of the common stock issuable upon exercise of the Private Placement Warrants (the "Charter Amendment"). We estimated the fair value of the Private Placement Warrants using the Black-Scholes valuation model to be $1.82 million, which was classified as a warrant subscription payable within additional paid-in capital in our consolidated balance sheet using the following assumptions: (i) closing stock price and Private Placement Warrants contractual exercise price; (ii) 5.5 year term; (iii) historical volatilities commensurate with the term of the Private Placement Warrants of 113.2%; and (iv) risk-free interest rates commensurate with the term of the Private Placement Warrants of 1.5%. We allocated the proceeds received from the Series E Financing to the Private Placement Warrants based on the relative fair value of the instruments issued to the Series E Investors. As a result of the special stockholders meeting held on April 28 2015, we issued the Private Placement Warrants to the Private Placement Investors and the warrant subscription payable was reclassified to additional paid-in capital.

Each Private Placement Warrant initially had an exercise price of $32.505 per share of common stock (subject to adjustment for stock splits and the like), which was 110% of the consolidated closing bid price of our common stock on NASDAQ immediately prior to entering into the Warrant Purchase Agreement, and is exercisable at any time after the six month anniversary of entering into the Warrant Purchase Agreement and on or prior to the close of business on the five year anniversary of the initial exercise date, subject to a beneficial ownership limitation. The Private Placement Warrants are not subject to price based anti-dilution protection. If, at the time of exercise of a Private Placement Warrant, there is no effective registration statement registering for resale the shares of common stock issuable upon exercise of the Private Placement Warrant, the holder may exercise the Private Placement Warrant on a cashless basis. When exercised on a cashless basis, a portion of the Private Placement Warrant is canceled in payment of the purchase price payable in respect of the number of shares of common stock purchasable upon such exercise.

Modification of Certain Other Outstanding Warrants

In connection with the purchase of the Private Placement Warrants, we modified previously issued and outstanding warrants held by the Private Placement Investors that were issued in connection with the Series A, B and C financings described above, to (i) reduce the exercise prices thereunder to $29.55, which represents the consolidated closing bid price of our common stock on NASDAQ immediately prior to the date we entered into the Warrant Purchase Agreement; (ii) prohibit the exercise of such modified warrants for a period of six months after the date of the modification; and (iii) extend the exercise period of such modified warrants for an additional six months (such modifications, collectively, the "Warrant Price Modifications"). Separately, we also agreed to a Warrant Price Modification with a holder of Series C Warrants solely in consideration for such holder's waiver of certain preemptive rights. We estimated the change in fair value of these warrants immediately prior to and immediately subsequent to the Warrant Price Modification to be $336,000, and such amount was recorded as a non-cash equity offering cost.

Series E Modifications

On October 12, 2015, we entered into an Amendment No. 1 to Common Stock Purchase Warrants (the “Warrants Amendment”) with each of the holders of the Series E Warrants and each of the holders of the Private Placement Warrants. Under the terms of the Warrants Amendment, all of the Series E Warrants and 100,847 of the Private Placement Warrants had their exercise prices reduced to $16.50 per share. Accordingly, with respect to the Private Placement Warrants, 100,847 of the Private Placement Warrants have an exercise price of $16.50 per share and 1,831 of the Private Placement Warrants retain their original exercise price of $32.505 per share. In consideration for entering into the Warrants Amendment, each Series E Investor agreed to irrevocably waive *ab initio* and for all time its right to receive cash dividends on its shares of our Series E Preferred Stock. We estimated the change in fair value of the Series E Warrants and the affected Private Placement Warrants prior to and immediately subsequent to the Warrants Amendment to be $168,000, which was recognized as a deemed dividend and as an increase to additional paid-in capital during the fourth quarter of 2015.

On February 4, 2016, we entered into a Series E 6% Convertible Preferred Stock Repurchase Agreement (the “Repurchase Agreement”) with the Series E Investors. Pursuant to the terms of the Repurchase Agreement, we agreed to pay each Series E Investor $300 per share of Series E Preferred Stock, or approximately $656,000, in consideration for the right to repurchase the Series E Investor’s Series E Preferred Stock at a price per share of $1,000 (the “Repurchase Price”), which was the original price per share paid by the Series E Investors for their Series E Preferred Stock in February 2015. We recognized the $656,000 payment as a deemed dividend paid to the Series E investors.

Immediately following the closing of our Series F public offering discussed below, we paid $2.2 million to the Series E Investors to repurchase all of the outstanding Series E Preferred Stock, in accordance with the terms of the Repurchase Agreement. Since almost none of the Series E Preferred Stock had converted by the time we repurchased the Series E Preferred Stock, the original $890,000 beneficial conversion feature that we recognized as a deemed dividend in 2015 was reversed as a return of capital from the Series E Preferred stockholders to the common stockholders.

Series F Convertible Preferred Stock and Warrants Financing

On March 24, 2016 (the “Series F Closing”), we closed an underwritten public offering (the “Series F Offering”) and issued 8,000 immediately separable units of securities to investors, with each unit consisting of: (i) one share of Series F convertible preferred stock (“Series F Preferred Stock”) convertible into shares of our common stock equal to 1,000 divided by the conversion price of $3.87, which was 75% of the consolidated closing bid price of our common stock on the NASDAQ Capital Market on March 18, 2016, the date we executed the underwriting agreement (“UA date”); and (ii) 258.397875 warrants, each to purchase one share of our common stock at an exercise price per share equal to $5.17 (“Series F Warrants”), which was 100% of the consolidated closing bid price of our common stock on the NASDAQ Capital Market on the UA date. The Series F Preferred Stock, the Series F Warrants, and the shares of common stock underlying the Series F Preferred Stock and Series F Warrants were registered on Form S-1, which was declared effective by the SEC on March 18, 2016. The Series F Preferred Stock was immediately convertible and the Series F Warrants were immediately exercisable for shares of common stock and have a term of five years. The Series F Warrants are exercisable for cash or, solely in the absence of an effective registration statement or prospectus, by cashless exercise. In total, there were 2,067,183 shares of common stock issuable upon conversion of the Series F Preferred Stock and up to 2,067,183 shares of common stock issuable upon exercise of the Series F Warrants.

The units were sold for a purchase price equal to $1,000 per unit, resulting in gross proceeds received by us of $8.0 million. Total offering-related costs paid through December 31, 2016 were $1.1 million, resulting in net proceeds recognized of $6.9 million. Given that the effective conversion price of the Series F Preferred Stock was below the closing market price of our common stock at the time of the Series F Closing, we recognized a beneficial conversion feature in the amount of $1.9 million. Since the Series F Preferred Stock was immediately convertible into common stock, the beneficial conversion feature was treated as a deemed dividend charged to retained earnings at closing. Also, from the time of the Series F Closing through December 31, 2016, 7,031 shares of the Series F Preferred Stock have converted into 1,816,827 shares of common stock. Subsequent to December 31, 2016 through February 28, 2017, an additional 699 shares of Series F Preferred Stock converted into 180,622 shares of common stock, leaving 270 shares of Series F Preferred Stock (representing 69,734 shares of common stock) unconverted.

The Series F Preferred Stock is non-voting (except to the extent required by law and except for certain consent rights relating to amending the certificate of incorporation or bylaws, and the like), but ranks senior to our common stock with respect to distributions upon our dissolution, liquidation or winding-up. Until the volume weighted average price of our common stock on NASDAQ exceeds 200% of the conversion price of the Series F Preferred Stock for any 20 of 30 consecutive trading days, and the daily dollar trading volume during such period exceeds $200,000 per trading day, the Series F Preferred Stock is subject to full ratchet price based anti-dilution protection, subject to certain limitations. Also, the Company can force holders of Series F Preferred Stock to convert into our common stock if the volume-weighted average price of our common stock exceeds 200% of the Series F Preferred Stock conversion price for any 20 of 30 consecutive trading days, and the daily dollar trading volume during such period exceeds $200,000 per trading day, subject to certain other conditions. The Series F investors have agreed to be subject to a blocker that would prevent each of their respective common stock ownership at any given time from exceeding 4.99% of our outstanding common stock (which may be increased on 61 days' notice, but not above 9.99%).

The Series F Warrants have a 5-year term and have a cashless exercise provision in the event there is no effective registration statement covering the common stock issuable upon exercise of the Series F Warrants. The Series F Warrants are not subject to price based anti-dilution protection. The Series F Warrants are listed on the NASDAQ Capital Market under the trading symbol "CBMXW."

Depending on the circumstances, upon a change in control constituting a "Fundamental Transaction" (as defined in the Series F Warrants), the holders of Series F Preferred Stock may be entitled to a 30% premium and the holders of Series F Warrants may have the right to require the Company to purchase the Series F Warrants for an amount in cash that is determined in accordance with a formula set forth in the Series F Warrants.

Common Stock Purchase Warrants Repurchase Agreement

On July 11, 2016, we entered into a Common Stock Purchase Warrants Repurchase Agreement (the "Warrants Repurchase Agreement") with the holders (the "Holders") of our outstanding common stock purchase warrants issued in October 2012, March 2013, May 2013, June 2013, June 2014, February 2015 and April 2015 (collectively, the "Warrants") in connection with our Series A, Series B, Series C and Series E financings. Pursuant to the terms of the Warrants Repurchase Agreement, we have agreed to repurchase the Warrants from each Holder upon execution of a "Fundamental Transaction" (as defined in such Warrants) at various negotiated prices per Warrant share as set forth in the Warrants Repurchase Agreement. Under the terms of the Warrants Repurchase Agreement, we will repurchase half of such Warrants upon the announcement of a Fundamental Transaction and the remaining half of such Warrants upon the closing of a Fundamental Transaction. In addition, upon the closing of a Fundamental Transaction, all Securities Purchase Agreements and Registration Rights Agreements associated with the original issuances of such Warrants will be terminated and the various restrictions set forth therein will no longer be of any force or effect. In connection with entering into the Warrants Repurchase Agreement, we were granted certain consents and waivers relating to a Fundamental Transaction. In the event that a Fundamental Transaction is announced and consummated, we will be obligated to repurchase such Warrants for approximately $459,000 of cash consideration paid to the Holders. One half of this amount will be due within three business days of announcing the Fundamental Transaction, and the remaining half will be due within three business days of closing the Fundamental Transaction. In the event that we announce a Fundamental Transaction but never close, for whatever reason, then one-half of such Warrants will be repurchased and canceled and one-half will remain issued and outstanding. In the event that a Fundamental Transaction is never announced nor consummated, we will not be obligated to repurchase such Warrants, and the underlying terms and conditions of such Warrants will remain in effect.

Warrants

Outstanding warrants to purchase our common stock are as follows:

	Shares of Common Stock Issuable from Warrants Outstanding as of December 31, 2016	2015	Exercise Price	Expiration
Equity-classified warrants:				
March 2016	2,067,183	—	$ 5.17	March 2021
April 2015	100,847	100,847	$ 16.50	August 2020
April 2015	1,831	1,831	$ 32.51	August 2020
February 2015	46,676	46,676	$ 16.50	August 2020
June 2014	1,690	1,690	$ 30.90	April 2018
December 2013	388,365	388,365	$ 46.80	December 2018
June 2013	32,788	32,788	$ 29.55	June 2019
May 2013	32,788	32,788	$ 29.55	May 2019
March 2013	18,334	18,334	$ 29.55	March 2019
October 2012	11,252	11,252	$ 29.55	September 2018
April 2011	—	8,746	$ 321.00	April 2016
Total	2,701,754	643,317		

12. EQUITY-BASED COMPENSATION

Our employees participate in the CombiMatrix Corporation 2006 Stock Incentive Plan (the “CombiMatrix Plan”), which was approved by our board of directors in 2006. In addition, during 2005, the board of directors of our wholly owned subsidiary, CombiMatrix Molecular Diagnostics, Inc. (“CMDX”), approved the CombiMatrix Molecular Diagnostics 2005 Stock Award Plan (the “CMDX Plan”). Our board of directors believes that granting employees stock-based awards from the CombiMatrix Plan is in the best interest of our Company and our stockholders. No awards have been granted to the CMDX Plan since 2010, and it is no longer being utilized.

CombiMatrix Corporation 2006 Stock Incentive Plan

The CombiMatrix Plan is administered by the Compensation Committee (the “Committee”) of our Board of Directors. The Committee determines which eligible individuals are to receive option grants or stock issuances under the CombiMatrix Plan, the time or times when the grants or issuances are to be made, the number of shares subject to each grant or issuance, the status of any granted option as either an incentive stock option or a non-statutory stock option under the federal tax laws, the vesting schedule to be in effect for the option grant or stock issuance and the maximum term for which any granted option is to remain outstanding.

The CombiMatrix Plan is divided into two separate equity incentive programs: a discretionary option grant / stock appreciation right program and a stock issuance program. To date, the discretionary option grant program has been the primary program used in awarding stock-based compensation. Under the discretionary option grant program, the Committee may grant non-statutory options to purchase shares of CombiMatrix stock to eligible individuals in our employ (including employees, non-employee board members and consultants) at an exercise price not less than 100% of the fair market value of those shares on the grant date, and incentive stock options to purchase shares of CombiMatrix stock to eligible employees at an exercise price not less than 100% of the fair market value of those shares on the grant date. Options are generally exercisable over a three- or four-year vesting term following the date of grant and expire ten years after the grant date. The Committee may grant other forms of equity based compensation, such as restricted stock units ("RSU's"), which the Committee awarded to certain executives and directors of the Company for the first time during 2014. RSUs vest in equal annual installments over a four-year period following the date of grant. At December 31, 2016, there were 183,086 authorized shares under the CombiMatrix Plan, with 2,152 shares available for grant.

The following is a summary of the stock option activities under the CombiMatrix Plan for 2016 and 2015:

	Shares	Weighted Average Exercise Price	Weighted Average Contractual Term	Aggregate Intrinsic Value ('000s)
Balance at December 31, 2014	45,790	$ 147.30	8.0 years	$ —
Granted	42,149	$ 24.00		
Exercised	—	$ —		
Forfeited	(16,811)	$ 44.40		
Canceled	(1,133)	$ 45.30		
Balance at December 31, 2015	69,995	$ 99.19	8.2 years	$ —
Granted (non employees only)	6,832	$ 3.88		
Exercised	—	$ —		
Forfeited	(9,312)	$ 24.70		
Canceled	(2,882)	$ 255.66		
Balance at December 31, 2016	64,633	$ 92.87	7.3 years	$ —
Exercisable at December 31, 2015	17,372	$ 309.00	6.0 years	$ —
Exercisable at December 31, 2016	29,358	$ 175.30	6.2 years	$ —

Information related to options granted under the CombiMatrix Plan for 2016 and 2015 is as follows:

	December 31, 2016	December 31, 2015
Weighted average fair values of options granted	$ —	$ 18.47
Options granted with exercise prices:		
Greater than market price on the grant date	—	—
Equal to market price on the grant date	6,832	42,149
Less than market price on the grant date	—	—

The aggregate fair value of options vested during the years ended December 31, 2016 and 2015 was $424,000 and $321,000, respectively. As of December 31, 2016, the total unrecognized compensation expense related to non-vested stock option awards was $500,000, which is expected to be recognized over a weighted average term of approximately 1.9 years.

The following is a summary of the RSU activities under the CombiMatrix Plan for 2016 and 2015:

	Restricted Stock Units	Weighted Average Grant Date Fair Value
Nonvested RSU’s at December 31, 2014	20,179	$ 42.45
Granted	26,447	$ 23.85
Vested	(5,041)	$ 42.45
Canceled	(2,784)	$ 19.67
Nonvested RSU’s at December 31, 2015	38,801	$ 31.20
Granted	89,664	$ 2.88
Vested	(10,953)	$ 32.45
Canceled	(1,211)	$ 32.74
Nonvested RSU’s at December 31, 2016	116,301	$ 9.21

As of December 31, 2016, the total unrecognized compensation expense related to RSUs was $751,000, which is expected to be recognized over a weighted-average period of approximately 2.3 years.

CombiMatrix Molecular Diagnostics 2005 Stock Award Plan

Our wholly owned subsidiary, CMDX, executed the CMDX Plan, with plan provisions and terms similar to that of the CombiMatrix Plan as described above. At December 31, 2016, there were 4.0 million authorized shares available under the CMDX Plan, with 4.0 million shares available for grant. However, our Board of Directors has no intention of utilizing this plan in the future.

The following is a summary of stock option activities for the CMDX Plan for 2016 and 2015:

	Shares	Weighted Average Exercise Price	Weighted Average Contractual Term	Aggregate Intrinsic Value (’000s)
Balance at December 31, 2014	291,000	$ 0.34	2.1 years	$ 51
Granted	—	$ —		
Exercised	—	$ —		
Canceled	(140,000)	$ 0.16		
Balance at December 31, 2015	151,000	$ 0.50	0.4 years	$ 36
Granted	—	$ —		
Exercised	—	$ —		
Canceled	(151,000)	$ 0.50		
Balance at December 31, 2016	—	$ —	—	$ —
Exercisable at December 31, 2015	101,000	$ 0.50	0.4 years	$ 24
Exercisable at December 31, 2016	—	$ —	—	$ —

There were no option grants during 2016 or 2015 under the CMDX Plan. The fair value of options vested during the years ended December 31, 2016 and 2015 was not significant.

Stock Option Awards Granted to Non-Employees

Stock option expense reflected in the consolidated statements of operations related to stock options issued to our non-employee scientific advisory board members and consultants are recognized at fair value using the Black-Scholes option-pricing model with weighted average assumptions as disclosed in Note 2 under “Stock-Based Compensation.” For the years ended December 31, 2016 and 2015, non-cash charges recognized from stock option awards granted to non-employees was not significant.

Exhibit 99.3

COMBIMATRIX CORPORATION
CONSOLIDATED BALANCE SHEETS
(In thousands, except share amounts)

	September 30, 2017 (unaudited)	December 31, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	$ 2,382	$ 2,727
Short-term investments	—	1,000
Accounts receivable, net of allowance for doubtful accounts of $234 and $232	4,177	3,351
Supplies	443	599
Prepaid expenses and other assets	170	174
Total current assets	7,172	7,851
Property and equipment, net	537	597
Other assets	30	30
Total assets	$ 7,739	$ 8,478
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 884	$ 542
Accrued liabilities	1,281	1,147
Current portion, long-term debt	63	100
Total current liabilities	2,228	1,789
Capital lease obligations, net of current portion	122	50
Deferred rent	115	145
Total liabilities	2,465	1,984
Commitments and contingencies (Notes 6 and 7)		
Stockholders' equity:		
Convertible preferred stock; $0.001 par value; 5,000,000 shares authorized; Series F - 8,000 shares authorized; 14 and 969 issued and outstanding	—	—
Common stock; $0.001 par value; 50,000,000 shares authorized; 2,938,992 and 2,673,756 shares issued and outstanding	15	15
Additional paid-in capital	109,403	109,068
Accumulated other comprehensive loss	—	—
Accumulated deficit	(104,144)	(102,589)
Total stockholders' equity	5,274	6,494
Total liabilities and stockholders' equity	$ 7,739	$ 8,478

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

COMBIMATRIX CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except share and per share information)
(Unaudited)

	Three Months Ended September 30, 2017	Three Months Ended September 30, 2016	Nine Months Ended September 30, 2017	Nine Months Ended September 30, 2016
Revenues:				
Diagnostic services	$ 3,977	$ 3,211	$ 11,949	$ 9,190
Royalties	35	37	91	137
Total revenues	4,012	3,248	12,040	9,327
Operating expenses:				
Cost of services	1,614	1,476	4,754	4,327
Research and development	90	88	260	380
Sales and marketing	967	1,055	3,005	3,532
General and administrative	1,930	1,450	5,449	4,562
Patent amortization and royalties	25	25	75	75
Total operating expenses	4,626	4,094	13,543	12,876
Operating loss	(614)	(846)	(1,503)	(3,549)
Other income (expense):				
Interest income	7	7	18	19
Interest expense	(3)	(17)	(13)	(52)
Total other income (expense)	4	(10)	5	(33)
Net loss	$ (610)	$ (856)	$ (1,498)	$ (3,582)
Deemed dividend from issuing Series F convertible preferred stock and warrants	$ —	$ —	$ —	$ (1,877)
Deemed dividend paid for right to repurchase Series E convertible preferred stock	—	—	—	(656)
Deemed dividend from issuing and modifying Series E convertible preferred stock and warrants	—	—	—	890
Net loss attributable to common stockholders	$ (610)	$ (856)	$ (1,498)	$ (5,225)
Basic and diluted net loss per share	$ (0.21)	$ (0.38)	$ (0.52)	$ (2.38)
Deemed dividend from issuing Series F convertible preferred stock	—	—	—	(1.25)
Deemed dividend paid for right to repurchase Series E convertible preferred stock	—	—	—	(0.44)
Deemed dividend from issuing and modifying Series E convertible preferred stock	—	—	—	0.59
Basic and diluted net loss per share attributable to common stockholders	$ (0.21)	$ (0.38)	$ (0.52)	$ (3.48)
Basic and diluted weighted average common shares outstanding	2,925,580	2,253,834	2,867,860	1,502,680

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

COMBIMATRIX CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(In thousands, except share and per share information)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	**2016**	**2017**	**2016**
Net loss	$ (610)	$ (856)	$(1,498)	$ (3,582)
Unrealized gain on available-for-sale investments	—	—	—	2
Total comprehensive loss	$ (610)	$ (856)	$(1,498)	$ (3,580)

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

COMBIMATRIX CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	Nine Months Ended September 30, 2017	Nine Months Ended September 30, 2016
Operating activities:		
Net loss	$(1,498)	$ (3,582)
Adjustments to reconcile net loss to net cash flows from operating activities:		
Depreciation and amortization	181	195
Non-cash stock compensation	508	591
Provision for bad debts	509	302
Changes in assets and liabilities:		
Accounts receivable	(1,335)	(855)
Supplies, prepaid expenses and other assets	160	(35)
Accounts payable, accrued expenses and other	480	23
Net cash flows from operating activities	(995)	(3,361)
Investing activities:		
Purchases of property and equipment	(30)	(148)
Proceeds from sale of property and equipment	19	—
Purchase of available-for-sale investments	(1,499)	(4,998)
Sale of available-for-sale investments	2,499	8,248
Net cash flows from investing activities	989	3,102
Financing activities:		
Repurchase of certain Series A, B, C and E common stock warrants	(230)	—
Proceeds from issuance of Series F convertible preferred stock and common stock warrants	—	8,000
Costs from issuance of Series F convertible preferred stock and common stock warrants	—	(1,064)
Repurchase of Series E convertible prefered stock and dividends	—	(2,842)
Repayments of long-term debt	(109)	(143)
Net cash flows from financing activities	(339)	3,951
Change in cash and cash equivalents	(345)	3,692
Cash and cash equivalents, beginning	2,727	653
Cash and cash equivalents, ending	$ 2,382	$ 4,345
Non-cash financing activities:		
Property and equipment purchased under capital lease	$ 142	$ 23
Adjustments to paid-in capital and retained earnings from change in accounting principle	$ 57	$ —
Deemed dividends from issuing Series E convertible preferred stock	$ —	$ (890)
Deemed dividends from issuing Series F convertible preferred stock	$ —	$ 1,877
Accrued property and equipment	$ —	$ 9

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

COMBIMATRIX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. OVERVIEW AND BACKGROUND

CombiMatrix Corporation (the "Company," "we," "us" and "our") was originally incorporated in October 1995 as a California corporation and later reincorporated as a Delaware corporation in September 2000. In December 2002, we merged with, and became a wholly owned subsidiary of Acacia Research Corporation ("Acacia"). In August 2007, we split-off from Acacia and became publicly traded on The NASDAQ Stock Market. As a result of the split-off, we ceased to be a subsidiary of, or affiliated with, Acacia.

Description of the Company

We are a family health-focused clinical molecular diagnostic laboratory specializing in pre-implantation genetic screening, prenatal diagnosis, miscarriage analysis, and pediatric developmental disorders. We strive to provide best-in-class clinical laboratory support to healthcare professionals, allowing them to maximize the clinical utility of their patients' test results and to optimize patient care. Our testing focuses on advanced technologies, including single nucleotide polymorphism ("SNP") chromosomal microarray analysis, next generation sequencing, fluorescent in situ hybridization and high resolution karyotyping. Our approach to testing is to offer sophisticated technology along with high-quality clinical support to our ordering physicians and their patients. Our laboratory facilities and corporate headquarters are located in Irvine, California.

We also own a one-third minority interest in Leuchemix, Inc. ("Leuchemix"), a private drug development company focused on developing a series of compounds to address a number of oncology-related diseases.

Basis of Presentation

The accompanying consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Rule 8-03 of Regulation S-X. Accordingly, certain information and notes required by generally accepted accounting principles in annual financial statements have been omitted or condensed. These interim consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto for the year ended December 31, 2016, as reported by us in our Annual Report on Form 10-K filed with the Securities and Exchange Commission (the "SEC") on March 3, 2017. The year-end consolidated balance sheet data was derived from audited financial statements but does not include all disclosures required by accounting principles generally accepted in the United States of America. The consolidated financial statements include all adjustments of a normal recurring nature which, in the opinion of management, are necessary for a fair statement of our financial position as of September 30, 2017, and results of operations and cash flows for the interim periods presented. The results of operations for the three and nine months ended September 30, 2017 are not necessarily indicative of the results to be expected for the entire year.

Going Concern Analysis

We have a history of incurring net losses and net operating cash flow deficits. We also incur expenses from deploying new technologies and from continuing to develop new and improving existing commercial diagnostic testing services and related technologies. As a result, these conditions raise substantial doubt regarding our ability to continue as a going concern beyond twelve months from the date of this filing. As of September 30, 2017, we had cash, cash equivalents and short-term investments of $2.4 million. Also, the combination of continued revenue and cash reimbursement growth we have experienced over the past several quarters, coupled with improved gross margins and cost containment of expenses leads management to believe that it is probable that our cash resources will be sufficient to meet our cash requirements for current operations through and beyond the first quarter of 2018, when we anticipate achieving cash flow break-even status (excluding merger-related expenses). If necessary, management also believes that it is probable that external sources of debt and/or equity financing could be obtained based on management's history of being able to raise capital coupled with current favorable market conditions. As a result of both management's plans and current favorable trends in improving cash flow, we believe the initial conditions which raised substantial doubt regarding our ability to continue as a going concern have been alleviated. Therefore, the accompanying consolidated financial statements have been prepared assuming that we will continue as a going concern. However, there can be no assurance that our operations will become profitable or that external sources of financing, including the issuance of debt and/or equity securities, will be available at times and on terms acceptable to us, or at all.

The consolidated financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from the matters discussed herein. While we believe in the viability of our strategy to generate sufficient revenue and cash reimbursement, control costs and our ability to raise additional funds if necessary, there can be no assurances to that effect. Our ability to continue as a going concern is dependent upon our ability to further implement our business plan, generate sufficient revenues and cash reimbursement and to control operating expenses.

Risks

Our business operations are also subject to certain risks and uncertainties, including:

- market acceptance of our services;
- technological advances that may make our services obsolete or less competitive;
- increases in operating costs, including costs for supplies, personnel and equipment;
- variability in third-party reimbursement of our tests;
- the availability and cost of capital; and
- governmental regulation that may restrict our business.

Our services are concentrated in a highly competitive market that is characterized by rapid technological advances, frequent changes in customer requirements and evolving regulatory requirements and industry standards. Failure to anticipate or respond adequately to technological advances, changes in customer requirements, changes in regulatory requirements or industry standards, or any significant delays in the development or introduction of planned services, could have a material adverse effect on our business and operating results.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates. The preparation of financial statements in conformity with generally accepted accounting principles (“GAAP”) in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Principles of Consolidation . The accompanying consolidated financial statements include the accounts of the Company and our wholly owned and majority-owned subsidiaries. Investments for which we possess the power to direct or cause the direction of the management and policies, either through majority ownership or other means, are accounted for under the consolidation method. Material intercompany transactions and balances have been eliminated in consolidation. Investments in companies in which we maintain an ownership interest of 20% to 50% or exercise significant influence over operating and financial policies are accounted for under the equity method. The cost method is used where we maintain ownership interests of less than 20% and do not exercise significant influence over the investee.

Revenue Recognition . We recognize revenue when (i) persuasive evidence of an arrangement exists, (ii) delivery has occurred or services have been performed, (iii) amounts are fixed or determinable and (iv) collectability of amounts is reasonably assured.

Service revenues from providing diagnostic tests are recognized when the testing process is complete and test results are reported to the ordering physician or clinic. These diagnostic services are billed to various payors, including third-party commercial insurance companies, healthcare institutions, government payors including various state Medicaid programs, and individuals. We report revenues from contracted payors based on a contractual rate, or in the case of state Medicaid contracts, published fee schedules for our tests. We report revenues from non-contracted payors based on the amounts expected to be collected. The differences between the amounts billed and the amounts expected to be collected from non-contracted payors are recorded as contractual allowances to arrive at net recognized revenues. The expected revenues from non-contracted payors are based on the historical collection experience of each payor or payor group, as appropriate, and also take into account recent collection trends. In each reporting period, we review our historical collection experience for non-contracted payors and adjust our expected revenues for current and subsequent periods accordingly. We also recognize additional revenue from actual cash payments that exceed amounts initially recognized, in the period the payments are received. Because a substantial portion of our revenues is from non-contracted third-party payors, it is likely that we will be required to make adjustments to accounting estimates with respect to contractual allowances in the future, which may positively or adversely affect our results of operations. In all cases described above, we report revenues net of any applicable statutory taxes collected from customers, as applicable. No single customer exceeded 10% of revenues for any of the periods presented.

Cash Equivalents and Short-Term Investments. We consider all highly liquid investments purchased with original maturities of three months or less when purchased to be cash equivalents. Short-term investments consist of fixed income investments with maturities between three and 12 months and other highly liquid investments that can be readily purchased or sold using established markets. These investments are classified as available-for-sale and are reported at fair value on our consolidated balance sheet. Unrealized holding gains and losses are reported within comprehensive loss in the consolidated statements of comprehensive loss. Fair value is based on available market information including quoted market prices, broker or dealer quotations or other observable inputs. If a decline in the fair value of a short-term investment below our cost basis is determined to be other than temporary, such investment is written down to its estimated fair value as a new cost basis and the amount of the write-down is included in earnings as an impairment charge. To-date, no permanent impairment charges have been realized or recorded.

Fair Value Measurements. We measure fair value as an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that is determined based on assumptions that market participants would use in pricing an asset or liability. We utilize a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

- Level 1: Observable market inputs such as quoted prices in active markets;
- Level 2: Observable market inputs, other than the quoted prices in active markets, that are observable either directly or indirectly; and
- Level 3: Unobservable inputs where there is little or no market data, which require the reporting entity to develop its own assumptions.

We classify our cash equivalents within the fair value hierarchy as Level 1 as these assets are valued using quoted prices in active markets for identical assets at the measurement date. We classify short-term investments within the fair value hierarchy as Level 2, primarily utilizing broker quotes in a non-active market for valuation of these investments. Financial instruments that contain valuation inputs that are not readily determinable from active markets or from similar securities trading in active markets, such as derivative financial instruments, are classified within the fair value hierarchy as Level 3.

Impairment of Long-Lived Assets . Long-lived assets and intangible assets are reviewed for potential impairment when events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. In the event the sum of the expected undiscounted future cash flows resulting from the use of the asset is less than the carrying amount of the asset, an impairment loss equal to the excess of the asset's carrying value over its fair value is recorded. If an asset is determined to be impaired, the loss is measured based on quoted market prices in active markets, if available. If quoted market prices are not available, the estimate of fair value is based on various valuation techniques, including a discounted value of estimated future cash flows.

Derivative Financial Instruments. We evaluate financial instruments for freestanding or embedded derivatives. Derivative instruments that do not qualify for permanent equity classification are recorded as liabilities at fair value, with changes in value recognized as other income (expense) in the consolidated statements of operations in the period of change. Derivative liabilities are categorized as either short-term or long-term based upon management's estimates as to when the derivative instrument may be realized or based upon the holder's ability to realize the instrument.

Concentration of Credit Risks . Cash and cash equivalents are invested in deposits with certain financial institutions and may, at times, exceed federally insured limits. We have not experienced any significant losses on our deposits of cash and cash equivalents. We do not believe that we are exposed to significant credit risk on cash and cash equivalents or on our short-term investments. Accounts receivable from Insurance Carrier A of $601,000, Carrier B of $497,000 and Carrier C of $459,000 each exceeded 10% of our total accounts receivable balance as of September 30, 2017. Accounts receivable from Insurance Carrier B of $441,000 exceeded 10% of our total accounts receivable balance as of December 31, 2016.

Substantially all of the components and raw materials used in providing our testing services, including array slides and reagents, are currently provided to us from a limited number of sources or in some cases from a single source. Although we believe that alternative sources for those components and raw materials are available, any supply interruption in a sole-sourced component or raw material might result in up to a several-month production delay and materially harm our ability to provide testing services until a new source of supply, if any, could be located and qualified.

Accounts Receivable and Allowance for Doubtful Accounts. For our contracted third-party payors, governmental payors or direct-bill customers, accounts receivable are stated at principal amounts and are primarily comprised of amounts contractually due from customers for services performed. For our non-contracted customers, accounts receivable are stated at amounts expected to be collected based on historical collection experience with the third-party payor. The payment realization cycle for certain governmental and commercial insurance payors can be lengthy, involving denial, appeal and adjudication processes, and is subject to periodic adjustments that may be significant. Accounts receivable are periodically written off when identified as uncollectible after appropriate collection efforts have been exhausted. Such write-offs increase the contractual allowances (which reduce revenues) for those accounts in the period of adjustment. Collection of governmental, private health insurer, and client receivables are generally a function of providing complete and correct billing information to the insurers and clients within the filing deadlines required by each payor.

Collection of receivables due from patients and private-pay clients is generally subject to increased credit risk due to credit-worthiness or inability to pay. For these customers, an allowance for doubtful accounts is recorded for estimated uncollectible amounts, and involves significant assumptions and judgments. Specifically, the allowance for doubtful accounts is adjusted periodically and is principally based upon specific identification of past due or disputed accounts. We also review the age of receivables to assess our allowance at each period end. Additions to the allowance for doubtful accounts are charged to bad debt expense as a component of general and administrative expenses in the consolidated statements of operations.

Stock-Based Compensation . The compensation cost for all employee stock-based awards is measured at the grant date, based on the fair value of the award, and is recognized as an expense, on a straight-line basis, over the employee's requisite service period (generally the vesting period of the equity award) which is generally four years. The fair value of each stock option award is estimated on the date of grant using a Black-Scholes option valuation model. The fair value of each restricted stock unit ("RSU") award is based on the number of shares granted and the closing price of our common stock as reported on The NASDAQ Capital Market on the date of grant.

In March 2016, the Financial Accounting Standards Board ("FASB") issued guidance regarding employee share-based payment accounting. The guidance is intended to simplify several areas of accounting for share-based compensation arrangements, including the income tax impact, classification on the statement of cash flows and provides the choice for companies to estimate forfeitures during the vesting period of an award or recognize forfeitures at the time an award is canceled and forfeited. The standard became effective and was implemented by us on January 1, 2017. We elected to change our policy regarding forfeitures to recognize when an award is canceled and forfeited rather than estimating forfeitures up front. The impact from implementing this policy was to reduce retained earnings and increase additional paid-in capital by $57,000.

Stock-based compensation expense for all periods presented attributable to our functional expense categories from stock option and RSU awards vesting during the periods presented were as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Cost of services	$ 9	$ 14	$ 27	$ 34
Research and development	—	—	—	—
Sales and marketing	16	19	50	63
General and administrative	137	153	431	494
Total non-cash stock compensation	$ 162	$ 186	$ 508	$ 591

Net Loss Per Share . Basic and diluted net loss per share has been computed by dividing the net loss by the weighted average number of common shares issued and outstanding during the periods presented. Options and warrants to purchase common stock as well as preferred stock convertible into shares of common stock are anti-dilutive and therefore are not included in the determination of the diluted net loss per share. The following table reflects the excluded dilutive securities:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Common stock options	62,697	66,687	62,697	66,687
Restricted stock units	98,049	59,000	98,049	59,000
Common stock warrants	2,578,455	2,701,754	2,578,455	2,701,754
Series F preferred stock convertible into common stock	3,582	436,662	3,582	436,662
Excluded potentially dilutive securities	2,742,783	3,264,103	2,742,783	3,264,103

Segments. We have determined that we operate in one segment for financial reporting purposes.

Recent Accounting Pronouncements. In July 2017, the FASB issued an accounting standards update regarding earnings per share, distinguishing liabilities from equity and derivatives and hedging. Part 1 of the update addresses the complexity of accounting for certain financial instruments with down-round features, such as anti-dilution provisions of common stock warrant contracts that can require liability classification and subsequent mark-to-market accounting for these securities. As a result of this update, a down-round feature no longer precludes equity classification when assessing whether the instrument is indexed to an entity's own stock, which means that derivative accounting treatment and liability classification are no longer required. The amendment requires the effect of a down round feature to be treated as a dividend and as a reduction of income available to common shareholders when computing basic earnings per share when the feature is triggered. In addition, convertible instruments with embedded conversion options that have down-round features are now subject to the specialized guidance for contingent beneficial conversion features, including related EPS guidance. Part II of the update addresses certain content that is pending or deferred and has no accounting effect. The amendments in Part I of the update are effective for all public entities for the first interim and annual reporting periods beginning after December 15, 2018, with early adoption permitted. We do not expect the adoption of this update to have a material impact on our consolidated financial statements.

In February 2016, the FASB issued a new accounting standard regarding leases, which requires lessees to recognize on their balance sheets a right-of-use asset, representing their right to use the underlying asset for the lease term, and a lease liability for all leases with terms greater than 12 months. The standard also requires qualitative and quantitative disclosures designed to assess the amount, timing and uncertainty of cash flows arising from leases. The standard requires the use of a modified retrospective transition approach, which includes a number of optional practical expedients that entities may elect to apply. The standard is effective for us beginning January 1, 2019, and we are currently evaluating the impact that this standard will have on our consolidated financial statements.

In May 2014, the FASB issued new accounting guidance regarding revenue recognition from contracts with customers, which when effective will supersede existing revenue recognition requirements and will eliminate most industry-specific guidance from GAAP. The core principle of the new guidance is to require an entity to recognize as revenue the amount that reflects the consideration to which it expects to be entitled in exchange for goods or services as it transfers control to its customers. The new guidance requires additional qualitative and quantitative disclosures about the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. An entity can apply the new guidance retrospectively to each prior reporting period presented (i.e., the full retrospective method) or retrospectively with the cumulative effect of initially applying the standard recognized at the date of initial application in retained earnings. As originally issued, the new revenue recognition standard would be effective for us beginning January 1, 2017. However, in 2015, the FASB voted to defer the effective date of the new guidance for one year. We have nearly completed our detailed assessment of the impact that this guidance will have on our consolidated financial statements, with additional analysis currently ongoing. Based on our current assessment, we expect the majority of the amounts that have historically been recognized as bad debt expense, primarily related to patient responsibility, will be reflected as a reduction of the transaction price originally recognized and therefore as a reduction in revenue. We will adopt the new guidance beginning January 2018.

3. CASH AND SHORT-TERM INVESTMENTS

As of September 30, 2017, we held $2.4 million in cash, cash equivalents and short-term investments, which are reported at fair value. Cash, cash equivalents and short-term investments consisted of the following as of September 30, 2017 and December 31, 2016 (in thousands):

	As of September 30, 2017				As of December 31, 2016			
		Unrealized		Fair		Unrealized		Fair
	Cost	Gains	Losses	Value	Cost	Gains	Losses	Value
Cash and money market securities	$2,382	$—	$ —	$2,382	$2,727	$—	$ —	$2,727
Commercial paper	—	—	—	—	500	—	—	500
Certificates of deposit	—	—	—	—	500	—	—	500
	$2,382	$—	$ —	$2,382	$3,727	$—	$ —	$3,727

There were no realized gains or losses for the periods ended September 30, 2017 or 2016.

4. FAIR VALUE MEASUREMENTS

The following table summarizes, for each major category of financial assets measured on a recurring basis, the respective fair value at September 30, 2017 and December 31, 2016 and the classification by level of input within the fair value hierarchy defined above (in thousands):

		Fair Value Measurements		
September 30, 2017	**Total**	**Level 1**	**Level 2**	**Level 3**
Assets:				
Cash equivalents	$1,346	$1,346	$ —	$ —
Short-term investments	—	—	—	—
Cash equivalents	$1,346	$1,346	$ —	$ —

		Fair Value Measurements		
December 31, 2016	**Total**	**Level 1**	**Level 2**	**Level 3**
Assets:				
Cash equivalents	$1,735	$1,735	$ —	$ —
Short-term investments	1,000	—	1,000	—
Cash equivalents	$2,735	$1,735	$1,000	$ —

The carrying amounts of accounts receivable, accounts payable, accrued expenses, capital leases and the secured promissory note approximate fair value due primarily to the short-term nature of these financial instruments.

5. STOCKHOLDERS' EQUITY

Series A through E Convertible Preferred Stock and Warrant Financings

Between 2012 and 2015, we executed several financing transactions whereby we issued convertible preferred stock and warrants to purchase common stock to investors. As of December 31, 2016, none of the Series A through E convertible preferred stock remained outstanding. For as long as the Series A warrants remain unexercised through their expiration date, except under certain permitted circumstances, we may not issue, or enter into any agreement to issue, common stock or common stock equivalents at a price per share below the $73.65 exercise price of the Series A warrants, unless waivers from the Series A investors are obtained. Until the time that less than 7.5% of the Series B, C and E warrants remain unexercised through their expiration date, except under certain permitted circumstances, we may not issue, or enter into any agreement to issue, common stock or common stock equivalents at prices per share below the $29.55, $29.55 and $32.51 exercise prices of the Series B, C and E warrants, respectively, unless waivers from the Series B, C and E investors are obtained. In addition, until there are no longer Series A, C and E warrants outstanding, we may not sell any variable rate securities except for certain exempt issuances.

Series E Modifications

On February 4, 2016, we entered into a Series E 6% Convertible Preferred Stock Repurchase Agreement (the "Repurchase Agreement") with the Series E Investors. Pursuant to the terms of the Repurchase Agreement, we agreed to pay each Series E Investor $300 per share of Series E Preferred Stock, or approximately $656,000, in consideration for the right to repurchase the Series E Investor's Series E Preferred Stock at a price per share of $1,000 (the "Repurchase Price"), which was the original price per share paid by the Series E Investors for their Series E Preferred Stock in February 2015. We recognized the $656,000 payment as a deemed dividend paid to the Series E investors.

Immediately following the closing of our Series F public offering discussed below, we paid $2.2 million to the Series E Investors to repurchase all of the outstanding Series E Preferred Stock, in accordance with the terms of the Repurchase Agreement. Since almost none of the Series E Preferred Stock had converted by the time we repurchased the Series E Preferred Stock, the original $890,000 beneficial conversion feature that we recognized as a deemed dividend in 2015 was reversed as a return of capital from the Series E Preferred stockholders to the common stockholders.

Series F Convertible Preferred Stock and Warrants Financing

On March 24, 2016 (the "Series F Closing"), we closed an underwritten public offering (the "Series F Offering") and issued 8,000 immediately separable units of securities to investors, with each unit consisting of: (i) one share of Series F convertible preferred stock ("Series F Preferred Stock") convertible into shares of our common stock equal to 1,000 divided by the conversion price of $3.87, which was 75% of the consolidated closing bid price of our common stock on The NASDAQ Capital Market on March 18, 2016, the date we executed the underwriting agreement ("UA date"); and (ii) 258.397875 warrants, each to purchase one share of our common stock at an exercise price per share equal to $5.17 (“Series F Warrants”), which was 100% of the consolidated closing bid price of our common stock on The NASDAQ Capital Market on the UA date. The Series F Preferred Stock, the Series F Warrants, and the shares of common stock underlying the Series F Preferred Stock and Series F Warrants were registered on Form S-1, which was declared effective by the SEC on March 18, 2016. The Series F Preferred Stock was immediately convertible and the Series F Warrants were immediately exercisable for shares of common stock and have a term of five years. The Series F Warrants are exercisable for cash or, solely in the absence of an effective registration statement or prospectus, by cashless exercise. In total, there were 2,067,183 shares of common stock issuable upon conversion of the Series F Preferred Stock and up to 2,067,183 shares of common stock issuable upon exercise of the Series F Warrants. The units were sold for a purchase price equal to $1,000 per unit, resulting in gross proceeds received by us of $8.0 million. Total offering-related costs paid through December 31, 2016 were $1.1 million, resulting in net proceeds recognized of $6.9 million. Given that the effective conversion price of the Series F Preferred Stock was below the closing market price of our common stock at the time of the Series F Closing, we recognized a beneficial conversion feature in the amount of $1.9 million. Since the Series F Preferred Stock was immediately convertible into common stock, the beneficial conversion feature was treated as a deemed dividend charged to retained earnings at closing. Also, from the time of the Series F Closing through September 30, 2017, 7,986 shares of the Series F Preferred Stock have converted into 2,063,601 shares of common stock, leaving 14 shares of Series F Preferred Stock (representing 3,582 shares of common stock) unconverted.

The Series F Preferred Stock is non-voting (except to the extent required by law and except for certain consent rights relating to amending the certificate of incorporation or bylaws, and the like), but ranks senior to our common stock with respect to distributions upon our dissolution, liquidation or winding-up. Until the volume weighted average price of our common stock on NASDAQ exceeds 200% of the conversion price of the Series F Preferred Stock for any 20 of 30 consecutive trading days, and the daily dollar trading volume during such period exceeds $200,000 per trading day, the Series F Preferred Stock is subject to full ratchet price based anti-dilution protection, subject to certain limitations. Also, the Company can force holders of Series F Preferred Stock to convert into our common stock if the volume-weighted average price of our common stock exceeds 200% of the Series F Preferred Stock conversion price for any 20 of 30 consecutive trading days, and the daily dollar trading volume during such period exceeds $200,000 per trading day, subject to certain other conditions. The Series F investors have agreed to be subject to a blocker that would prevent each of their respective common stock ownership at any given time from exceeding 4.99% of our outstanding common stock (which may be increased on 61 days’ notice, but not above 9.99%).

The Series F Warrants have a 5-year term and have a cashless exercise provision in the event there is no effective registration statement covering the common stock issuable upon exercise of the Series F Warrants. The Series F Warrants are not subject to price based anti-dilution protection. The Series F Warrants are listed on The NASDAQ Capital Market under the trading symbol “CBMXW.” For the nine months ended September 30, 2017, 210 Series F Warrants have been exercised, generating gross proceeds to the Company of $1,086. Subsequent to September 30, 2017 through November 3, 2017, 4,900 Series F Warrants were exercised, generating gross proceeds of $25,333.

Depending on the circumstances, upon a change in control constituting a “Fundamental Transaction” (as defined in the Series F Warrants), the holders of Series F Preferred Stock may be entitled to a 30% premium and the holders of Series F Warrants may have the right to require either that the Company purchase the Series F Warrants for an amount in cash that is determined in accordance with a formula set forth in the Series F Warrants or that the successor assumes and replaces the Series F Warrants with substantially equivalent warrants of the successor.

Common Stock Purchase Warrants Repurchase Agreement

On July 11, 2016, we entered into a Common Stock Purchase Warrants Repurchase Agreement (the “Warrants Repurchase Agreement”) with the holders (the “Holders”) of our outstanding common stock purchase warrants issued in October 2012, March 2013, May 2013, June 2013, June 2014, February 2015 and April 2015 (collectively, the “Warrants”) in connection with our Series A, Series B, Series C and Series E financings. Pursuant to the terms of the Warrants Repurchase Agreement, we have agreed to repurchase such Warrants from each Holder upon execution of a “Fundamental Transaction” (as defined in such Warrants) at various negotiated prices per Warrant share as set forth in the Warrants Repurchase Agreement. The Warrants Repurchase Agreement obligates us to repurchase half of such Warrants upon the announcement of a Fundamental Transaction. On July 31, 2017, we announced that we entered into an Agreement and Plan of Merger and Reorganization (the "Merger Agreement") with Invitae Corporation ("Invitae") and Coronado Merger Sub, Inc., a wholly owned subsidiary of Invitae ("Merger Sub"), pursuant to which Invitae plans to acquire us in an all-stock transaction in which Merger Sub will merge with and into us (the "Merger"). The Merger is considered a Fundamental Transaction under the Warrants Repurchase Agreement and, as a result of entering into and announcing the Merger Agreement, and pursuant to the terms of the Warrants Repurchase Agreement, we repurchased one-half of such outstanding Warrants on August 3, 2017, for approximately $230,000 of cash consideration. Under the terms of the Warrants Repurchase Agreement, we will be obligated to repurchase the remaining one-half of such Warrants for an additional $230,000 within three business days of any closing of the Merger. However, under the terms of the Merger Agreement, we are required to repurchase the remaining one-half of such Warrants at or prior to the closing of the Merger. In addition, upon any closing of the Merger, all Securities Purchase Agreements and Registration Rights Agreements associated with the original issuances of such Warrants will be terminated and the various restrictions set forth therein will no longer be of any force or effect. In the event that we do not close the Merger or any other Fundamental Transaction, for whatever reason, then the remaining one-half of such Warrants will remain issued and outstanding. See Note 7 below.

Warrants

Outstanding warrants to purchase common stock are as follows:

	Shares of Common Stock Issuable from Warrants Outstanding as of			
	September 30, 2017	**December 31, 2016**	**Exercise Price**	**Expiration**
Equity-classified warrants:				
March 2016	2,066,966	2,067,176	$ 5.17	March 2021
April 2015	50,430	100,847	$ 16.50	August 2020
April 2015	920	1,831	$ 32.51	August 2020
February 2015	23,342	46,676	$ 16.50	August 2020
June 2014	847	1,690	$ 30.90	April 2018
December 2013	388,365	388,365	$ 46.80	December 2018
June 2013	16,395	32,788	$ 29.55	June 2019
May 2013	16,395	32,788	$ 29.55	May 2019
March 2013	9,167	18,334	$ 29.55	March 2019
October 2012	5,628	11,252	$ 29.55	September 2018
Total	2,578,455	2,701,747		

6. COMMITMENTS AND CONTINGENCIES

Executive Severance

We provide certain severance benefits such that if any of our executive officers is terminated for other than cause, death or disability, the executive will receive payments equal to three months' base salary plus medical and dental benefits. In addition, we have implemented a Restated Executive Change of Control Severance Plan (as amended, the "Severance Plan") that affects certain of our senior management-level employees who are classified as "Section 16 Officers" of the Company. Pursuant to the Severance Plan, if a participating employee is involuntarily terminated (other than for death, disability or for cause) or resigns for "good reason" (as defined in the Severance Plan) during the two-year period following a "change of control" (as defined in the Severance Plan) of the Company, then, subject to execution of a release of claims against the Company, the employee will be entitled to receive: (i) one-half times annual base salary (one times annual base salary for the Chief Executive Officer); (ii) immediate vesting of outstanding compensatory equity awards; and (iii) payment of COBRA premiums for the participating employee and eligible dependents for a pre-determined period of time. Payment of benefits under the Severance Plan will be limited by provisions contained in Section 409A of the U.S. Internal Revenue Code. The Severance Plan is administered by a plan administrator, which initially is the Compensation Committee of the Board of Directors. In order to participate in the Severance Plan, an eligible employee must waive any prior retention or severance agreements. The Severance Plan automatically renews annually unless terminated upon 12 months prior written notice. We expect that our Chief Executive Officer and Chief Financial Officer will receive benefits under the Severance Plan as a result of any consummation of the Merger.

Also, our Board of Directors and Compensation Committee have adopted a Transaction Bonus Plan (the "Transaction Bonus Plan"), which provides for certain bonus payments to be made, upon any consummation of a qualifying change of control transaction (as defined in the Transaction Bonus Plan) such as the Merger, to certain participants as shall be determined from time to time by the Compensation Committee of our Board of Directors. The aggregate value of the bonuses payable under the Transaction Bonus Plan shall be the greater of (i) $1,000,000 or (ii) ten percent of the net proceeds received in connection with a qualifying change of control transaction such as the Merger, and the percentage of such bonus pool awarded to each eligible participant shall be determined from time to time by our Compensation Committee.

Litigation

In 2002, we entered into a settlement agreement with Nanogen, Inc. ("Nanogen") to settle all pending litigation between the parties. Pursuant to the terms of the settlement agreement, we agreed to make quarterly payments to Nanogen equal to 12.5% of total sales of products developed by us and our affiliates based on the patents that had been in dispute in the litigation, up to an annual maximum amount of $1.5 million. The minimum quarterly payments under the settlement agreement are $25,000 per quarter until the patents expire in 2018. Royalty expenses recognized under the agreement were $25,000 and $75,000 for both of the three and nine months ended September 30, 2017 and 2016, respectively, and are included in patent amortization and royalties in the accompanying consolidated statements of operations.

From time to time, we are subject to other claims and legal actions that arise in the ordinary course of business. We believe that the ultimate liability with respect to these claims and legal actions, if any, will not have a material effect on our financial position, results of operations or cash flows. Any legal costs resulting from claims or legal actions are expensed as incurred.

7. PROPOSED MERGER WITH INVITAE CORPORATION

On July 31, 2017, we entered into the Merger Agreement with Invitae, pursuant to which Invitae plans to acquire us through an all-stock Merger. The Merger is subject to certain closing conditions, as set forth in the Merger Agreement, including, among others, obtaining certain regulatory approvals, approval from our stockholders and at least 90% participation in a Series F Warrant exchange offer being conducted by Invitae in connection with the Merger. Any Series F warrants that are exercised prior to expiration of the warrant exchange offer (including exercises contingent solely upon closing of the Merger) will be counted by Invitae towards the 90% threshold of participation.

The Merger Agreement contains certain termination rights for both us and Invitae, including, among others, if the Merger is not consummated on or before January 31, 2018 (unless due to the terminating party's action or failure to act or SEC delay) or if the approval of our stockholders is not obtained. If the Merger Agreement is terminated by either us or Invitae as a result of a breach by the other party of any of such other party's representations, warranties or covenants, or because the occurrence of a material adverse effect applicable to such other party was the sole failed condition to closing, or if the Merger Agreement is terminated by Invitae as a result of the failure of our stockholders to approve the Merger Agreement or as a result of an adverse change in the recommendation of our board of directors, then the defaulting party will be obligated to reimburse the other party's third party expenses up to a maximum of $400,000. The Merger Agreement further provides that, upon termination of the Merger Agreement under specified circumstances, including, among others, termination of the Merger Agreement as a result of an adverse change in the recommendation of our board of directors after receiving a bona fide alternative acquisition proposal or termination of the Merger Agreement as a result of our stockholders not approving the

Merger Agreement following disclosure of a bona fide acquisition proposal after which we are sold within 12 months, we may be required to pay to Invitae a termination fee of up to $1.4 million (net of any expense reimbursement previously paid).

The foregoing description of the Merger Agreement is not a complete description of all of the parties' rights and obligations under the Merger Agreement and is qualified in its entirety by reference to the Merger Agreement, which was filed as Exhibit 2.1 to our Current Report on Form 8-K filed with the SEC on July 31, 2017.

On September 13, 2017, Invitae filed certain registration statements with the SEC in order to register securities to be issued in the Merger and the Series F Warrant exchange offer, as amended on September 28, 2017. These registration statements were declared effective by the SEC on October 5, 2017. On October 23, 2017, we filed a proxy statement and solicitation materials regarding the Special Meeting of CombiMatrix Stockholders to be held on November 10, 2017 at 1:00 PM Pacific time in Newport Beach, California. The primary purpose of this meeting is for our stockholders to vote on the approval of the Merger and related proposals. The Series F Warrant exchange offer by Invitae is currently ongoing and will expire at 12:00 midnight, New York City time, on November 13, 2017 (one minute after 11:59 p.m., New York City time, on November 13, 2017) unless extended. Assuming that our stockholders representing a majority of our issued and outstanding common stock as of September 26, 2017 vote in favor of the Merger and assuming other closing conditions are met, we anticipate closing of the Merger to occur during the fourth quarter of 2017.

Exhibit 99.4

UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION

The following unaudited pro forma condensed combined balance sheet as of September 30, 2017 and the unaudited pro forma condensed combined statements of operations for the year ended December 31, 2016 and the nine months ended September 30, 2017 are based on the separate historical consolidated financial statements of Invitae and CombiMatrix after giving effect to the merger of Invitae and CombiMatrix (the "Merger").

The unaudited pro forma condensed combined balance sheet as of September 30, 2017 combines the balance sheet of Invitae as of September 30, 2017 with the balance sheet of CombiMatrix as of September 30, 2017. The unaudited pro forma condensed combined statement of operations for the year ended December 31, 2016 combines Invitae's results of operations for the year ended December 31, 2016 with CombiMatrix's results of operations for the year ended December 31, 2016. The unaudited pro forma condensed combined statement of operations for the nine months ended September 30, 2017 combines Invitae's results of operations for the nine months ended September 30, 2017 with CombiMatrix's results of operations for the nine months ended June 30, 2017.

The unaudited pro forma condensed combined balance sheet as of September 30, 2017 assumes the Merger and related events were consummated on September 30, 2017. The unaudited pro forma condensed combined statements of operations for the year ended December 31, 2016 and the nine months ended September 30, 2017 give pro forma effect to the Merger and related events as if they were consummated on January 1, 2016, the beginning of Invitae's 2016 fiscal year. The historical financial information has been adjusted to give effect to pro forma adjustments that are (i) directly attributable to the Merger, (ii) factually supportable, and (iii) with respect to the unaudited pro forma condensed combined statements of operations, expected to have a continuing impact on the combined entity's consolidated results. The unaudited pro forma condensed combined statements of operations do not include the impact of any operating synergies that may result from the Merger.

The Merger was completed on November 14, 2017 and will be accounted for as an acquisition by Invitae. See Note 1 entitled " *Description of Transaction and Basis of Presentation* " for more information. In summary, Invitae has concluded that Invitae is the accounting acquirer based on its evaluation of the facts and circumstances of the acquisition. The purpose of the Merger is for Invitae to acquire the business of CombiMatrix so that Invitae can expand its products and services offerings. Invitae is the larger of the two entities and will be the operating company within the combining companies. Invitae's board members will continue to hold all of the seats on the Invitae board of directors and CombiMatrix stockholders do not have any board appointment rights. Invitae's senior management will be continuing as the senior management of the combined company.

The unaudited pro forma condensed combined financial statements are presented for informational purposes only. The unaudited pro forma condensed combined financial statements are not necessarily indicative of what Invitae's financial position or results of operations actually would have been had Invitae completed the Merger with CombiMatrix as of the dates indicated. In addition, the unaudited pro forma condensed combined financial statements do not purport to project the future financial position or operating results of the combined company. You should read this information together with the following:

- the accompanying notes to the unaudited consolidated pro forma condensed combined financial statements;
- the separate historical unaudited consolidated financial statements of Invitae as of and for the nine months ended September 30, 2017 included in Invitae's Quarterly Report on Form 10-Q for the quarter ended September 30, 2017;
- the separate historical audited consolidated financial statements of Invitae as of and for the year ended December 31, 2016 included in Invitae's Annual Report on Form 10-K for the year ended December 31, 2016;
- the separate historical unaudited consolidated financial statements of CombiMatrix as of and for the nine months ended September 30, 2017 included in CombiMatrix's Quarterly Report on Form 10-Q for the quarter ended September 30, 2017, and attached as an exhibit to Invitae's Current Report on Form 8-K/A filed with the Securities and Exchange Commission on January 26, 2018; and

- the separate historical audited consolidated financial statements of CombiMatrix as of and for the year ended December 31, 2016 included in CombiMatrix's Annual Report on Form 10-K for the year ended December 31, 2016, and attached as an exhibit to Invitae's Current Report on Form 8-K/A filed with the Securities and Exchange Commission on January 26, 2018.

The unaudited pro forma condensed combined financial information has been compiled in a manner consistent with the accounting policies adopted by Invitae. Invitae believes these accounting policies are similar in most material respects to those of CombiMatrix. Upon completion of the Merger, or as more information becomes available, Invitae will perform a more detailed review of the CombiMatrix accounting policies. As a result of that review, differences could be identified between the accounting policies of the two companies that, when conformed, could have a material impact on the combined financial statements.

INVITAE CORPORATION

UNAUDITED PRO FORMA CONDENSED COMBINED BALANCE SHEET
SEPTEMBER 30, 2017

(in thousands)

	Invitae (Historical)	CombiMatrix (Historical)	Pro Forma Adjustments	Note No.	Pro Forma Combined
Assets					
Current assets:					
Cash and cash equivalents	$ 33,858	$ 2,382	$ (230)	(A)	$ 36,010
Marketable securities	43,049	—	—		43,049
Accounts receivable	6,142	4,177	—		10,319
Prepaid expenses and other current assets	7,898	613	—		8,511
Total current assets	90,947	7,172	(230)		97,889
Property and equipment, net	29,308	537	—		29,845
Restricted cash	5,405	—	—		5,405
Marketable securities, non-current	24,229	—	—		24,229
Intangible assets, net	20,100	—	17,668	(B)	37,768
Goodwill	42,843	—	8,605	(C)	51,448
Other assets	406	30	—		436
Total assets	$ 213,238	$ 7,739	$ 26,043		$ 247,020
Liabilities and stockholders' equity					
Current liabilities:					
Accounts payable	$ 10,683	$ 884	$ —		$ 11,567
Accrued liabilities	22,267	1,281	3,384	(D)(E)(F)	26,932
Capital lease obligation, current portion	1,851	—	—		1,851
Debt, current portion	—	63	—		63
Total current liabilities	34,801	2,228	3,384		40,413
Capital lease obligation, net of current portion	2,420	122	—		2,542
Debt, net of current portion	39,030	—	—		39,030
Other long-term liabilities	11,593	115	—		11,708
Total liabilities	87,844	2,465	3,384		93,693
Stockholders' equity:					
Preferred stock	—	—	—		—
Common stock	5	15	(12)	(G)(H)	8
Accumulated other comprehensive loss	(57)	—	—		(57)
Additional paid-in capital	483,551	109,403	(80,218)	(G)(H)	512,736
Accumulated deficit	(358,105)	(104,144)	102,889	(D)(G)(H)	(359,360)
Total stockholders' equity	125,394	5,274	22,659		153,327
Total liabilities and stockholders' equity	$ 213,238	$ 7,739	$ 26,043		$ 247,020

INVITAE CORPORATION

UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2016
(in thousands, except per share data)

	Invitae (Historical)	CombiMatrix (Historical)	Pro Forma Adjustments	Note No.	Pro Forma Combined
Revenue:					
Test revenue	$ 25,048	$ 12,696	$ —		$ 37,744
Other revenue	—	173	—		173
Total revenue	25,048	12,869	—		37,917
Costs and operating expenses:					
Costs of revenue	27,878	5,787	835	(I)	34,500
Research and development	44,630	493	5	(I)	45,128
Selling and marketing	28,638	4,569	1,413	(I)	34,620
General and administrative	24,085	6,113	40	(I)	30,238
Total costs and operating expenses	125,231	16,962	2,293		144,486
Loss from operations	(100,183)	(4,093)	(2,293)		(106,569)
Other income (expense), net	348	22	—		370
Interest expense	(421)	(69)	—		(490)
Net loss before taxes	(100,256)	(4,140)	(2,293)		(106,689)
Income tax benefit	—	—	—		—
Net loss	$ (100,256)	$ (4,140)	$ (2,293)		$ (106,689)
Net loss per share, basic and diluted	$ (3.02)				$ (2.97)
Shares used in computing net loss per share, basis and diluted	33,176,305		2,703,389	(H)	35,879,694

INVITAE CORPORATION

UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2017

(in thousands, except per share data)

	Invitae (Historical)	CombiMatrix (Historical)	Pro Forma Adjustments	Note No.	Pro Forma Combined
Revenue:					
Test revenue	$ 40,597	$ 11,949	$ —		$ 52,546
Other revenue	2,225	91	—		2,316
Total revenue	42,822	12,040	—		54,862
Costs and operating expenses:					
Costs of revenue	33,093	4,754	626	(I)	38,473
Research and development	32,864	260	4	(I)	33,128
Selling and marketing	37,338	3,005	982	(I)	41,325
General and administrative	25,915	5,524	(1,082)	(I)(J)	30,357
Total costs and operating expenses	129,210	13,543	530		143,283
Loss from operations	(86,388)	(1,503)	(530)		(88,421)
Other income (expense), net	(596)	18	—		(578)
Interest expense	(2,517)	(13)	—		(2,530)
Net loss before taxes	(89,501)	(1,498)	(530)		(91,529)
Income tax benefit	(6,614)	—	—		(6,614)
Net loss	$ (82,887)	$ (1,498)	$ (530)		$ (84,915)
Net loss per share, basic and diluted	$ (1.86)				$ (1.79)
Shares used in computing net loss per share, basis and diluted	44,639,416		2,703,389	(H)	47,342,805

NOTES TO UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS

1. Description of Transaction and Basis of Presentation

Description of Transaction

On November 14, 2017, Invitae Corporation ("Invitae") completed its acquisition of CombiMatrix Corporation ("CombiMatrix") in accordance with the terms of the Agreement and Plan of Merger and Reorganization, dated as of July 31, 2017 ("Merger Agreement") by and among Invitae, Coronado Merger Sub, Inc., a wholly owned subsidiary of Invitae ("Merger Sub"), and CombiMatrix, pursuant to which Merger Sub merged with and into CombiMatrix, with CombiMatrix surviving as a wholly owned subsidiary of Invitae (the "Merger"). This transaction was approved by CombiMatrix's stockholders at a special meeting of its stockholders on November 10, 2017. The CombiMatrix Merger is intended to qualify for federal income tax purposes as a tax-free reorganization under the provisions of Section 368(a) of the Internal Revenue Code of 1986, as amended (the "Internal Revenue Code"). Invitae is considered to be the acquiring company for accounting purposes in this transaction.

At the closing of the Merger, Invitae issued shares of its common stock to (i) CombiMatrix's common stockholders, at an exchange ratio of 0.8692 of a share of Invitae common stock (the "Merger Exchange Ratio") for each share of CombiMatrix common stock outstanding immediately prior to the Merger, (ii) CombiMatrix's Series F preferred stockholders, at the Merger Exchange Ratio for each share of CombiMatrix common stock underlying Series F preferred stock outstanding immediately prior to the Merger, (iii) holders of outstanding and unexercised in-the-money CombiMatrix stock options, which were fully accelerated to the extent of any applicable vesting period and converted into the right to receive the number of shares of Invitae common stock equal to the Merger Exchange Ratio multiplied by the number of shares of CombiMatrix common stock issuable upon exercise of such option, minus the number of shares of Invitae common stock determined by dividing the aggregate exercise price for such option by $9.491 (the "Invitae Trailing Average Share Value"), and (iv) holders of outstanding and unsettled CombiMatrix restricted stock units ("RSUs"), which were fully accelerated to the extent of any applicable vesting period and converted into the right to receive a number of shares of Invitae common stock determined by multiplying the number of shares of CombiMatrix common stock that were subject to such RSU by the Merger Exchange Ratio. No fractional shares were issued in connection with the Merger and Invitae paid cash in lieu of any such fractional shares.

In addition, at the closing of the Merger, (a) all outstanding and unexercised out-of-the money CombiMatrix stock options were cancelled and terminated without the right to receive any consideration, (b) all CombiMatrix Series D Warrants and Series F Warrants outstanding and unexercised immediately prior to the closing of the Merger were assumed by Invitae and converted into warrants to purchase the number of shares of Invitae common stock determined by multiplying the number of shares of CombiMatrix common stock subject to such warrants by the Merger Exchange Ratio, and with the exercise price adjusted by dividing the per share exercise price of the CombiMatrix common stock subject to such warrants by the Merger Exchange Ratio, and (c) certain entitlements under CombiMatrix's executive compensation transaction bonus plan (the "Transaction Bonus Plan") were paid in shares of Invitae common stock or RSUs to be settled in shares of Invitae common stock. All outstanding and unexercised CombiMatrix Series A, Series B, Series C, Series E, and PIPE warrants were repurchased by CombiMatrix prior to closing pursuant to that certain CombiMatrix Common Stock Purchase Warrants Repurchase Agreement dated July 11, 2016.

Basis of Presentation

The accompanying unaudited pro forma condensed combined financial statements were prepared in accordance with the regulations of the Securities and Exchange Commission (SEC) and are intended to show how the Merger might have affected the historical financial statements if the Merger had been completed on January 1, 2016 for the purposes of the condensed combined statements of operations, and as of September 30, 2017 for purposes of the condensed combined balance sheet.

Both Invitae and CombiMatrix's historical audited and unaudited financial statements were prepared in accordance with U.S. GAAP and are presented in thousands of U.S. dollars. The historical CombiMatrix financial statements included within the unaudited pro forma condensed combined balance sheet and statements of operations include certain reclassifications that were made to conform CombiMatrix's financial statement presentation to that of Invitae.

The unaudited pro forma condensed combined statements of operations also include certain acquisition accounting adjustments, including items expected to have a continuing impact on the results of the combined company, such as increased amortization expense on acquired intangible assets. The unaudited pro forma condensed combined statements of operations do not include the impacts of any operating synergies that may result from the Merger or any related restructuring costs that may be contemplated.

Based on the terms of the Merger, Invitae is deemed to be the acquiring company for accounting purposes and the transaction represents a business combination pursuant to Financial Accounting Standards Board Accounting Standards Codification Topic 805, *Business Combinations* .

The transaction is accounted for using the acquisition method of accounting. Under the acquisition method of accounting, identifiable assets and liabilities of CombiMatrix, including identifiable intangible assets, are recorded based on their estimated fair values as of the date of the closing of the transaction. Goodwill is calculated as the difference between the estimated acquisition consideration and fair values of identifiable net assets acquired. Invitae has not completed a full, detailed valuation analysis necessary to determine the fair values of CombiMatrix's identifiable assets to be acquired and liabilities to be assumed. The unaudited pro forma condensed combined financial statements and pro forma adjustments have been prepared based on preliminary estimates of fair value of assets acquired and liabilities assumed. Differences between these preliminary estimates and the final acquisition accounting will occur and these differences could have a material impact on the accompanying unaudited pro forma condensed combined financial statements and the combined company's future results of operations and financial position. For purposes of these unaudited pro forma combined condensed financial statements, the acquisition consideration is based on the closing price of Invitae's common stock on November 14, 2017 of $7.86 per share, the date the Merger was consummated. Total consideration transferred as of this date is estimated to be $28.6 million. Total acquisition consideration is estimated to be $27.9 million, which excludes post-combination expense of $711,000. The pro forma adjustments described below were developed based on Invitae's management's assumptions and estimates, including assumptions relating to the consideration paid and the fair value of the identifiable assets acquired and liabilities assumed from CombiMatrix. The amounts of the assets acquired and liabilities assumed that will be used in acquisition accounting will be based on their respective fair values as determined at the time of closing, and may differ significantly from these preliminary estimates.

2. Purchase Price

The consideration for the acquisition is as follows (in thousands):

Fair value of total acquisition consideration transferred	$28,644
Less: post-combination share-based expense attributable to outstanding and unexercised stock options and outstanding restricted stock units	(711)
Total acquisition consideration	$27,933

The fair value of the total acquisition transferred is calculated using the closing price of Invitae's common stock on November 14, 2017. Invitae issued 2,703,389 shares of common stock in exchange for CombiMatrix's (i) common stock, (ii) outstanding and unexercised in-the-money stock options, and (iii) outstanding restricted stock. Invitae issued warrants for the purchase of 2,077,273 shares of common stock in exchange for CombiMatrix's Series D and Series F warrants.

The estimated fair values of outstanding in-the-money stock options and restricted stock units is approximately $26,000 and $898,000, respectively, of which $22,000 and $689,000, respectively, will be recognized as expenses immediately upon the closing of the transaction. The estimated fair value of the Series D and Series F warrants exchanged for warrants for the purchase of 2,077,273 shares of Invitae common stock is approximately $7.4 million.

The fair value of the assets acquired and liabilities assumed, assuming the Merger has closed on September 30, 2017, are summarized below (in thousands):

Cash and cash equivalents	$ 2,152
Accounts receivable, net	4,177
Fixed assets	537
Other assets	643
Intangible assets	17,668
Total liabilities	(5,849)
Estimated total purchase price of net assets acquired	19,328
Excess of acquisition consideration over fair value of net assets acquired	8,605
Estimated total acquisition consideration	$27,933

The application of the acquisition method of accounting is dependent upon the completion of a full, detailed valuation analysis that has yet to be completed as of September 30, 2017. The estimated values of the assets acquired and liabilities assumed will remain preliminary until after closing of the transaction, at which time Invitae management will determine the fair values of assets acquired and liabilities assumed. The final determination of the purchase price allocation is anticipated to be completed as soon as practicable after completion of the transaction and will be based on the fair values of the assets acquired and liabilities assumed as of the transaction closing date. The final amounts allocated to assets acquired and liabilities assumed could differ significantly from the amounts presented in the unaudited pro forma condensed combined financial statements for the reasons described in Note 1.

3. Pro Forma Adjustments

Pro forma adjustments are necessary to reflect the acquisition consideration exchanged and to adjust amounts related to the tangible and intangible assets and liabilities of CombiMatrix to a preliminary estimate of their fair values, and to reflect the impact on the statements of operations of the proposed transaction as if the companies had been combined during the periods presented therein. The pro forma adjustments included in the unaudited pro forma condensed combined financial statements are as follows:

(A) To reflect the repurchase of CombiMatrix Series A, Series B, Series C, Series E and PIPE warrants as a condition of the consummation of the Merger.

(B) To reflect the estimated fair value of CombiMatrix intangible assets acquired, which includes the following:

Intangible Asset	**Estimated Useful Life (Years)**
Favorable lease	2
Trade name	1
Patent licensing agreement	15
Technology	4
Customer relationships	11

(C) To reflect goodwill, which is calculated as the difference between the fair value of the consideration paid and the values assigned to the identifiable tangible and intangibles assets acquired and liabilities assumed.

(D) To reflect estimated transaction costs at September 30, 2017 that are expected to be incurred prior to the transaction closing and that have not yet been incurred (see note 4).

(E) To reflect the assumed transaction bonus payable by Invitae in the amount of $1,579,000 to certain executives of CombiMatrix following the consummation of the Merger.

(F) To reflect the assumed severance payments payable by Invitae in the amount of $542,000 to certain executives of CombiMatrix following their termination after the consummation of the Merger.

(G) To reflect the elimination of CombiMatrix's historical equity consisting of common stock, paid-in capital, and accumulated deficit.

(H) To reflect the issuance of Invitae common stock in the Merger, including the fair value of post-combination expense in relation to stock options, restricted stock units and assumed warrants (see note 2).

(I) To reflect the amortization of intangibles acquired.

(J) To reflect the elimination of transaction costs recorded in the historical statements of operations in the amount of $1,112,000 as these are directly attributable to the transaction and non-recurring.

4. Non-recurring Transaction Costs

Invitae and CombiMatrix have incurred, and Invitae will continue to incur, certain non-recurring transaction expenses in connection with the proposed Merger. Non-recurring transaction expenses incurred by Invitae and CombiMatrix were $1,112,000 during the nine months ended September 30, 2017 and are reflected as an adjustment to reduce general and administrative expenses in the pro forma condensed combined statement of operations as they are non-recurring and directly attributable to the Merger. Neither Invitae nor CombiMatrix incurred any transaction costs related to this Merger in the year ended December 31, 2016. The pro forma condensed combined balance sheet as of September 30, 2017 includes an adjustment of $544,000 to accrued liabilities and accumulated deficit for transaction expenses expected to be incurred by Invitae subsequent to September 30, 2017. These transaction expenses are not reflected in the pro forma condensed combined statement of operations for the nine months ended September 30, 2017, as they are not expected to have a continuing impact on operations. Estimated transaction expenses of CombiMatrix, which had not been incurred as of September 30, 2017, are expected to be $719,000 and have been included in assumed liabilities as of September 30, 2017 in the unaudited pro forma condensed combined balance sheet.

The transaction bonus costs are not reflected in the pro forma condensed combined statement of operations for the year ended December 31, 2016 and the nine months ended September 30, 2017, as these costs will not affect Invitae's consolidated statements of operations in the periods following the acquisition date.