

# COMBIMATRIX CORP

## FORM DEF 14A (Proxy Statement (definitive))

Filed 04/29/14 for the Period Ending 06/17/14

Address	310 GODDARD SUITE 150 IRVINE, CA 92618
Telephone	949-753-0624
CIK	0001383183
Symbol	CBMX
SIC Code	3826 - Laboratory Analytical Instruments
Industry	Scientific & Technical Instr.
Sector	Technology
Fiscal Year	12/31

Use these links to rapidly review the document  
[TABLE OF CONTENTS](#)

[Table of Contents](#)

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

**SCHEDULE 14A**

Proxy Statement Pursuant to Section 14(a) of  
the Securities Exchange Act of 1934 (Amendment No.       )

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material under §240.14a-12

**COMBIMATRIX CORPORATION**

---

(Name of Registrant as Specified In Its Charter)

---

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.
  - (1) Title of each class of securities to which transaction applies:  
\_\_\_\_\_
  - (2) Aggregate number of securities to which transaction applies:  
\_\_\_\_\_
  - (3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):  
\_\_\_\_\_
  - (4) Proposed maximum aggregate value of transaction:  
\_\_\_\_\_
  - (5) Total fee paid:  
\_\_\_\_\_
- Fee paid previously with preliminary materials.
- Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify

the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:





May 5, 2014

Dear Stockholder:

You are cordially invited to attend CombiMatrix Corporation's 2014 Annual Meeting of Stockholders (the "Annual Meeting") to be held on June 17, 2014. The meeting will be held at the offices of Dorsey & Whitney LLP, 600 Anton Boulevard, Suite 2000, Costa Mesa, California 92626 beginning at 1:00 p.m. local time. The formal meeting notice and proxy statement for the Annual Meeting describe the matters to be presented at the Annual Meeting.

We are pleased to provide proxy materials to our stockholders over the Internet, which we believe will lower the costs of delivering such materials while also reducing the environmental impact of printing and mailing. Consequently, stockholders will not receive paper copies of our proxy materials unless they request them. We will send stockholders a notice with instructions for accessing the proxy materials and voting via the Internet. The notice also provides information on how to receive a paper copy of the Annual Meeting materials, if they so choose.

Whether or not you plan to attend the Annual Meeting, please vote as soon as possible through the Internet to ensure that your shares will be represented and voted at the Annual Meeting. If you later decide to attend the Annual Meeting and wish to change your vote, you may do so simply by voting in person at the meeting. Due to voting rules that may prevent your bank or broker from voting your uninstructed shares on a discretionary basis in the election of directors and other non-routine matters, it is important that you cast your vote.

We look forward to seeing you at the Annual Meeting.

Sincerely,

A handwritten signature in black ink, appearing to read "Mark McDonough", followed by a long, horizontal, slightly wavy line that extends across the width of the page.

Mark McDonough  
*President, Chief Executive Officer and Director*

---

## COMBIMATRIX CORPORATION

310 Goddard, Suite 150  
Irvine, CA 92618  
(949) 753-0624

### NOTICE OF ANNUAL MEETING OF STOCKHOLDERS TO BE HELD JUNE 17, 2014

#### TO OUR STOCKHOLDERS :

NOTICE IS HEREBY GIVEN that the 2014 Annual Meeting of Stockholders (the "Annual Meeting") of CombiMatrix Corporation, a Delaware corporation (the "Company"), will be held on June 17, 2014, at 1:00 p.m. local time at the offices of Dorsey & Whitney LLP, 600 Anton Boulevard, Suite 2000, Costa Mesa, California 92626. The Annual Meeting will be held for the following purposes, as more fully described in the proxy statement accompanying this notice:

1. **ELECTION OF DIRECTORS.** To elect the six (6) directors named in the attached proxy statement to serve until the 2015 annual meeting of stockholders and until their successors have been duly elected and qualified;
2. **INCREASE IN AUTHORIZED STOCK .** To approve an amendment to our Certificate of Incorporation to increase the maximum number of shares of our common stock authorized for issuance from 25,000,000 to 35,000,000 shares;
3. **AMENDMENT AND RESTATEMENT OF 2006 STOCK INCENTIVE PLAN .** To approve the amendment and restatement of our 2006 Stock Incentive Plan to increase the number of shares of common stock available for grant thereunder by 848,154 shares, from 1,151,846 shares to 2,000,000 shares, and to effect various other improvements thereunder;
4. **RATIFICATION OF AUDITORS.** To ratify the appointment of Haskell & White LLP as our independent registered public accounting firm for 2014; and
5. **ANY OTHER BUSINESS** that may properly come before the Annual Meeting or any adjournments or postponements thereof.

We recommend that stockholders vote FOR the matters listed above. Only stockholders of record at the close of business on April 22, 2014 are entitled to receive notice of and to vote at the Annual Meeting and any adjournments or postponements thereof. Our stock transfer books will remain open between the record date and the date of the meeting. A list of stockholders entitled to vote at the Annual Meeting will be available for inspection at our principal executive offices and at the Annual Meeting.

All stockholders are cordially invited to attend the Annual Meeting in person. However, to assure your representation at the Annual Meeting, you are urged to vote your shares as soon as possible. As an alternative to voting in person at the Annual Meeting, you may vote via the Internet or, if you receive a paper proxy card in the mail, you also may vote by telephone or by mailing a completed proxy card. For detailed information regarding voting instructions, please refer to the section entitled "Voting and Related Matters" on page 2 of the Proxy Statement.

You may revoke your proxy at any time prior to the Annual Meeting. If you attend the Annual Meeting and vote by ballot, your proxy will be revoked automatically and only your vote at the Annual Meeting will be counted. If your shares are held in the name of a bank, broker, or other holder of record, you must obtain a proxy, executed in your favor, from the holder of record in order to be able to vote in person at the Annual Meeting.

Please note: If you hold your shares in the name of a broker, bank or other nominee, your nominee may determine to vote your shares at its own discretion, absent instructions from you. However, due to voting rules that may prevent your bank or broker from voting your uninstructed shares on a discretionary basis in the election of directors and other non-routine matters, it is important that you cast your vote. Accordingly, please provide appropriate voting instructions to your broker or bank to ensure your vote will count.

---

**Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting of Stockholders to be held on June 17, 2014 :** This notice of annual meeting of stockholders, the proxy statement, and our annual report on Form 10-K for 2013 are available at <http://investor.combimatrix.com/annuals.cfm>.

Sincerely,

  

---

Mark McDonough

*President, Chief Executive Officer and Director*

Irvine, California

May 5, 2014

**YOUR VOTE IS VERY IMPORTANT**

**IN ORDER TO ASSURE YOUR REPRESENTATION AT THE MEETING, PLEASE REVIEW THE PROXY MATERIALS CAREFULLY AND VOTE AS PROMPTLY AS POSSIBLE. YOU MAY VOTE YOUR SHARES VIA THE INTERNET OR, IF YOU RECEIVE A PAPER PROXY CARD AND VOTING INSTRUCTIONS BY MAIL, YOU ALSO MAY VOTE YOUR SHARES BY TELEPHONE OR BY COMPLETING, SIGNING AND DATING THE PROXY CARD AND RETURNING IT IN THE ENCLOSED ENVELOPE. PLEASE REFER TO THE SECTION ENTITLED "VOTING AND RELATED MATTERS" ON PAGE 2 OF THE PROXY STATEMENT FOR A DESCRIPTION OF THESE VOTING METHODS**

## COMBIMATRIX CORPORATION

310 Goddard, Suite 150  
Irvine, California 92618  
(949) 753-0624

---

### PROXY STATEMENT

---

***Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting of Stockholders to be held on June 17, 2014 : This notice of annual meeting of stockholders, the proxy statement, and our annual report on Form 10-K for 2013 are available at <http://investor.combimatrix.com/annuals.cfm>.***

The enclosed proxy is solicited on behalf of CombiMatrix Corporation, a Delaware corporation, by its Board of Directors (the "Board") for use at its 2014 Annual Meeting of Stockholders (the "Annual Meeting") to be held at 1:00 p.m. local time on June 17, 2014, or at any adjournments or postponements thereof, for the purposes set forth in this proxy statement and in the accompanying notice. The Annual Meeting will be held at the offices of Dorsey & Whitney LLP, 600 Anton Boulevard, Suite 2000, Costa Mesa, California 92626.

Notice regarding the Internet availability of these proxy materials was first sent or given on or about May 5, 2014 to all stockholders entitled to vote at the Annual Meeting. Stockholders who owned CombiMatrix Common Stock at the close of business on April 22, 2014 (the "Record Date") are entitled to receive notice of, attend and vote at the Annual Meeting. On the Record Date, there were (i) 11,063,246 shares of Common Stock outstanding and approximately 92 holders of record according to information provided by our transfer agent; (ii) no shares of Series A 6% Convertible Preferred Stock ("Series A Stock") outstanding and no Series A Stock holders of record; (iii) no shares of Series B 6% Convertible Preferred Stock ("Series B Stock") outstanding and no Series B Stock holders of record; (iv) no shares of Series C 6% Convertible Preferred Stock ("Series C Stock") outstanding and no Series C Stock holders of record; and (v) no shares of Series D Convertible Preferred Stock ("Series D Stock") outstanding and no Series D Stock holders of record.

**While our proxy solicitation materials are available on the Internet, we will provide, without charge, copies of our annual report on Form 10-K to each stockholder of record as of the Record Date that requests a copy in writing. Any exhibits listed in the annual report on Form 10-K report also will be furnished upon request at the actual expense we incur in furnishing such exhibit. Any such requests should be directed to our Corporate Secretary at our executive offices set forth above.**

*References to the "Company," "CombiMatrix," "our," "us" or "we" mean CombiMatrix Corporation.*

---

**TABLE OF CONTENTS**

	<u>Page</u>
VOTING AND RELATED MATTERS	2
INTERNET AVAILABILITY OF PROXY MATERIALS	4
EXECUTIVE OFFICERS AND DIRECTORS	5
EXECUTIVE COMPENSATION	12
SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT	16
CERTAIN TRANSACTIONS	18
SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE	19
PRINCIPAL ACCOUNTANTS	20
REPORT OF THE AUDIT COMMITTEE OF THE BOARD OF DIRECTORS	21
PROPOSAL NO. 1—ELECTION OF DIRECTORS	22
PROPOSAL NO. 2—APPROVAL OF AN AMENDMENT TO OUR CERTIFICATE OF INCORPORATION TO INCREASE THE NUMBER OF AUTHORIZED SHARES OF COMMON STOCK TO 35,000,000	23
PROPOSAL NO. 3—APPROVAL OF THE AMENDMENT AND RESTATEMENT OF OUR 2006 STOCK INCENTIVE PLAN TO INCREASE THE NUMBER OF SHARES OF COMMON STOCK AVAILABLE FOR GRANT THEREUNDER BY 848,154 SHARES, FROM 1,151,846 SHARES TO 2,000,000 SHARES, AND TO EFFECT VARIOUS OTHER IMPROVEMENTS THEREUNDER	26
PROPOSAL NO. 4—RATIFICATION OF APPOINTMENT OF HASKELL & WHITE LLP	33
OTHER BUSINESS	34
ANNUAL REPORT ON FORM 10-K	34
STOCKHOLDER PROPOSALS	34

## VOTING AND RELATED MATTERS

### Voting Procedures

As a stockholder of CombiMatrix, you have a right to vote on certain business matters affecting us. The proposals that will be presented at the Annual Meeting and upon which you are being asked to vote are discussed below in the "Proposals" section. Each share of CombiMatrix common stock you owned as of the Record Date entitles you to one vote on each proposal presented at the Annual Meeting.

### Methods of Voting

If you are viewing this proxy over the Internet you may vote electronically over the Internet or in person at the Annual Meeting. If you receive a printed proxy card, you may vote over the Internet, by telephone, by mail or in person at the Annual Meeting. Please be aware that if you vote by telephone or over the Internet, you may incur costs such as telephone and Internet access charges for which you will be responsible.

**Voting over the Internet.** You can vote via the Internet. The website address for Internet voting is provided on your notice of Internet availability of proxy materials or, if you received one, on your proxy card. To vote via the Internet, you will need to use the control number appearing on your notice of Internet availability of proxy materials or, if you received one, on your proxy card. You can use the Internet to transmit your voting instructions up until 11:59 p.m. Eastern Time on June 16, 2014. Internet voting is available 24 hours a day.

**Voting by Telephone.** If you receive a printed proxy card, you can vote by telephone by calling the toll-free telephone number provided on your proxy card. You will need to use the control number appearing on your proxy card to vote by telephone. You may transmit your voting instructions from any touch-tone telephone up until 11:59 p.m. Eastern Time on June 16, 2014. Telephone voting is available 24 hours a day.

**Voting by Mail.** If you receive a printed proxy card, you can vote by marking, dating and signing it, and returning it in the postage-paid envelope provided. Please promptly mail your proxy card to ensure that it is received prior to the closing of the polls at the Annual Meeting.

**Voting in Person at the Meeting.** If you attend the Annual Meeting and plan to vote in person, we will provide you with a ballot at the Annual Meeting. If your shares are registered directly in your name, you are considered the stockholder of record and you have the right to vote in person at the Annual Meeting. If your shares are held in the name of your broker or other nominee, you are considered the beneficial owner of shares held in street name. As a beneficial owner, if you wish to vote at the Annual Meeting, you will need to bring to the Annual Meeting a legal proxy from your broker or other nominee authorizing you to vote those shares.

### Revoking Your Proxy

You may revoke your proxy at any time before it is voted at the Annual Meeting. To do this, you must:

- enter a new vote over the Internet or by telephone, or by signing and returning a replacement proxy card;
- provide written notice of the revocation to our Corporate Secretary at our principal executive office, 310 Goddard, Suite 150, Irvine, CA 92618; or
- attend the Annual Meeting and vote in person.

## Quorum and Voting Requirements

Stockholders of record at the close of business on April 22, 2014, are entitled to receive notice and vote at the meeting. On the Record Date, there were 11,063,246 issued and outstanding shares of our Common Stock, no issued and outstanding shares of Series A stock, no issued and outstanding shares of Series B Stock, no issued and outstanding shares of Series C Stock and no issued and outstanding shares of Series D Stock. Each holder of Common Stock voting at the meeting, either in person or by proxy, may cast one vote per share of Common Stock held on the Record Date on all matters to be voted on at the meeting. The Series A Stock, Series B Stock, Series C Stock and Series D Stock may not vote. Stockholders may not cumulate votes in the election of directors.

The presence, in person or by proxy, of the holders of a majority of the outstanding shares of Common Stock entitled to vote constitutes a quorum for the transaction of business at the Annual Meeting. Assuming that a quorum is present:

- (1) a plurality of the shares present in person or represented by proxy at the Annual Meeting and entitled to vote on the election of directors will be required to elect Board nominees;
- (2) the approval of the amendment to our certificate of incorporation, increasing the maximum number of shares of our common stock authorized for issuance from 25,000,000 to 35,000,000 shares, will be approved if a majority of the shares of common stock outstanding as of the Record Date and entitled to vote at the Annual Meeting are voted in favor of such approval;
- (3) the approval of the amendment and restatement of our 2006 Stock Incentive Plan to increase the number of shares of common stock available for grant thereunder by 848,154 shares, from 1,151,846 shares to 2,000,000 shares, and to effect various other improvements thereunder, will be approved if a majority of the total votes cast on the proposal in person or by proxy are cast in favor of such approval; and
- (4) the ratification of the appointment of Haskell & White LLP as our independent registered accounting firm for 2014 will be approved if a majority of the shares of common stock present in person or represented by proxy at the Annual Meeting and entitled to vote at the Annual Meeting are voted in favor of such ratification.

Votes cast by proxy or in person at the Annual Meeting will be tabulated by the election inspectors appointed for the meeting and who will determine whether a quorum is present. The election inspectors will treat abstentions and broker non-votes (i.e., shares held by a broker or nominee that are represented at the Annual Meeting, but with respect to which such broker or nominee is not instructed to vote on a particular proposal and does not have discretionary voting power) as shares that are present for purposes of determining the presence of a quorum. With regard to Proposal One, broker non-votes and votes marked "withheld" will not be counted towards the tabulations of votes cast on such proposal presented to the stockholders, will not have the effect of negative votes and will not affect the outcome of the election of the directors. With regard to Proposal Two, both abstentions and broker non-votes will be counted towards the tabulations of votes cast on such proposal presented to the stockholders and will have the same effect as negative votes. With regard to Proposal Three, abstentions and broker non-votes will not be counted for purposes of determining whether such proposal has been approved and will not have the effect of negative votes. With regard to Proposal Four, abstentions will be counted towards the tabulations of votes cast on such proposal presented to the stockholders and will have the same effect as negative votes, whereas broker non-votes will not be counted for purposes of determining whether such proposal has been approved and will not have the effect of negative votes.

If your shares are held by a bank or broker in street name, it is important that you cast your vote if you want it to count in the election of directors and other non-routine matters as determined by the New York Stock Exchange (the "NYSE"). Voting rules may prevent your bank or broker from voting your uninstructed shares on a discretionary basis in the election of directors and other non-routine matters. Accordingly, if your shares are held by a bank or broker in street name and you do not instruct your bank or broker how to vote in the election of directors or any other non-routine matters, no votes will be cast on your behalf.

## Voting of Proxies

When a proxy is properly executed and returned, the shares it represents will be voted at the Annual Meeting as directed. If no specification is indicated, the shares will be voted:

- (1) "for" the election of each Board nominee set forth in this proxy statement unless the authority to vote for such directors is withheld;
- (2) "for" the approval of the amendment to our certificate of incorporation, increasing the maximum number of shares of our common stock authorized for issuance from 25,000,000 to 35,000,000 shares;
- (3) "for" the approval of the amendment and restatement of our 2006 Stock Incentive Plan to increase the number of shares of common stock available for grant thereunder by 848,154 shares, from 1,151,846 shares to 2,000,000 shares, and to effect various other improvements thereunder;
- (4) "for" the ratification of the Audit Committee's appointment of Haskell & White LLP as our independent registered accounting firm for 2014; and
- (5) at the discretion of your proxies on any other matter that may be properly brought before the Annual Meeting.

## Voting Results

Voting results will be announced at the Annual Meeting and published in a Current Report on Form 8-K that will be filed with the Securities and Exchange Commission within four business days after the Annual Meeting.

## Proxy Solicitation

We will bear the cost of this solicitation. In addition, we may reimburse brokerage firms and other persons representing beneficial owners of shares for reasonable expenses incurred in forwarding solicitation materials to such beneficial owners. Proxies also may be solicited by our directors, officers or employees, personally, by telephone, facsimile, Internet or other means, without additional compensation. We may retain a proxy solicitor to assist in the distribution of proxies and proxy solicitation materials, and in the solicitation of proxies. Generally, the fee for such services is approximately \$15,000 plus expenses. If we do elect to retain a proxy solicitor, we will pay the proxy solicitor reasonable and customary fees. Except as described above, we do not presently intend to solicit proxies other than by mail.

***Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting of Stockholders to be held on June 17, 2014 :*** The notice of annual meeting of stockholders, this proxy statement, and our annual report on Form 10-K for 2013 are available at <http://investor.combimatrix.com/annuals.cfm>.

## INTERNET AVAILABILITY OF PROXY MATERIALS

In accordance with the rules of the Securities and Exchange Commission ("SEC"), we are using the Internet as our primary means of furnishing proxy materials to stockholders. Consequently, stockholders will not receive paper copies of our proxy materials unless they request them. We will send stockholders a Notice of Internet Availability of Proxy Materials with instructions for accessing the proxy materials, including our proxy statement and annual report, and voting via the Internet. The Notice of Internet Availability of Proxy Materials also provides information on how shareholders may obtain paper copies of our proxy materials if they so choose. This makes the proxy distribution process more efficient and less costly, and helps conserve natural resources. If you previously elected to receive our proxy materials electronically, these materials will continue to be sent via email unless you change your election.

## EXECUTIVE OFFICERS AND DIRECTORS

Our executive officers and directors and their ages as of April 8, 2014, are as follows:

<u>Name</u>	<u>Age</u>	<u>Position(s)</u>
Mark McDonough*	44	President, Chief Executive Officer and Director
Scott R. Burell	49	Chief Financial Officer, Secretary and Treasurer
R. Wesley Tyson, M.D.	56	Chief Medical Officer
R. Judd Jessup*	66	Chairman of the Board
Robert E. Hoffman*+ ^	48	Director
Scott Gottlieb, M.D.*+ ^ †	41	Director
Wei Richard Ding*+ ^ †	44	Director
Jeremy M. Jones*^†	72	Director

\* Nominee for election to Board

+ Member of the Audit Committee

^ Member of the Nominating and Governance Committee

† Member of the Compensation Committee

**Mark McDonough** has served as our President, Chief Executive Officer and a member of our Board since March 2013. From August 2012 to March 2013, Mr. McDonough served as our Chief Commercial Officer. Mr. McDonough has over 17 years of experience in diagnostic healthcare and life sciences. Prior to joining us, Mr. McDonough was Vice President of Sales and Service at Pathwork Diagnostics, a venture capital backed molecular diagnostic company, from September 2008 to August 2012. From January 2002 to September 2007, Mr. McDonough held various positions at US LABS, a Pathology services company that eventually became a division of LabCorp, a public company, ultimately becoming Vice President of Sales. He also served in an executive capacity at Dianon, a division of Laboratory Corporation of America, from September 2007 to July 2008 and at Laboratory Corporation of America, a public laboratory services company, from July 2008 to September 2008. From May 2001 to January 2002, Mr. McDonough was a Sales executive with EMC Corporation, a data storage company, and from August 1997 to May 2001, he held various positions of increasing responsibility with Ventana Medical Systems, a capital equipment, cancer diagnostics company. Prior to entering the healthcare industry, Mr. McDonough was a ranking officer in the United States Navy for six years where he served as Navigator of the USS Fletcher (DD 992). Mr. McDonough received a Bachelor's Degree in Finance from Miami University—Ohio. We believe Mr. McDonough's qualifications to serve on our Board include his commercial expertise as an executive, his technical depth in microarray technology and cancer diagnostics, his strategic vision, and familiarity with senior executives in industry as well as with venture capitalists.

**Scott R. Burell** has served as our Chief Financial Officer, Secretary and Treasurer since November 2006. Previously, he served as our Vice President of Finance from November 2001 through November 2006, and as our Controller from February 2000 through November 2001. From May 1999 to February 2001, Mr. Burell served as the Controller for Network Commerce, Inc., a publicly traded technology and infrastructure company located in Seattle. Prior to May 1999, Mr. Burell spent 9 years with Arthur Andersen's Audit and Business Advisory practice in Seattle. Mr. Burell is a certified public accountant in the state of Washington (currently inactive) and holds B.S. degrees in Accounting and Business Finance from Central Washington University. Mr. Burell is a member of the American Institute and Washington Society of Certified Public Accountants.

**R. Weslie Tyson, M.D.** has served as our Chief Medical Officer since April 2014. He has been a practicing pediatric and perinatal pathologist for 24 years. Prior to joining us, Dr. Tyson founded the Pediatric/Neonatology section of UniPath, Inc., a multispecialty pathology group that staffs eight metro hospitals and a large central laboratory, and he directed the pediatric and perinatal service there since 1999. Prior to Unipath, Dr. Tyson practiced perinatal and pediatric pathology at The Children's Hospital in Denver, Colorado from 1993 to 1998. Dr. Tyson began his clinical practice at the Kosair Children's Hospital and the University of Louisville from 1990 to 1993. He attended medical school at the University of Colorado where he also undertook his residency in anatomic pathology. Dr. Tyson spent a fourth year in clinical genetics followed by a 2-year fellowship in pediatric and perinatal pathology at the University of British Columbia Women and Children's Hospitals.

**R. Judd Jessup** has served on our Board since August 2010, has served as Chairman of our Board since March 2013 and served as our President and Chief Executive Officer from August 2010 to March 2013. Mr. Jessup has over 35 years of experience in the healthcare and managed care industries. Most recently, he was Chief Executive Officer of US LABS, a national laboratory which provides cancer diagnostics and genetic testing services, from 2002 to 2005. He has extensive background in the managed care industry having served as President of the Health Plans Division for FHP International from 1994 to 1996 as well as President of TakeCare, Inc., a publicly traded HMO operating in California, Colorado, Illinois and Ohio until it was sold to FHP. Mr. Jessup currently serves on the board of directors of Corvel Corporation, a publicly traded company. He served on the board of directors of NovaMed, Inc., a publicly traded company, from November 1998 until May 2011. We believe Mr. Jessup's qualifications to serve on our Board include his significant executive experience with the strategic, financial, and operational requirements of large health care organizations, including serving as an audit committee chair.

**Robert E. Hoffman** has served on our Board since July 2013. He is the Senior Vice President, Finance and Chief Financial Officer of Arena Pharmaceuticals, Inc., a publicly traded biopharmaceutical company, where he has served in various finance and accounting roles since 1997, except that from March 2011 to August 2011, Mr. Hoffman served as Chief Financial Officer for Polaris Group, a privately held drug development company. Mr. Hoffman is a member of the business and financial advisory board of Innovus Pharmaceuticals, a publicly traded emerging pharmaceuticals company. Mr. Hoffman also serves as a member of the Financial Accounting Standards Board's Small Business Advisory Committee and the steering committee of the Association of Bioscience Financial Officers. Mr. Hoffman is also a member and a former director and President of the San Diego Chapter of Financial Executives International. Mr. Hoffman holds a bachelor's degree in business administration from St. Bonaventure University, and is licensed as a C.P.A. (inactive) in the State of California. We believe Mr. Hoffman's qualifications to serve on our Board include his experience as an executive of a drug development company and knowledge of financial accounting in the medical technology field.

**Scott Gottlieb, M.D.** has served on our Board since January 2009. Dr. Gottlieb is currently a Resident Fellow at the American Enterprise Institute. Dr. Gottlieb is also a Clinical Assistant Professor at the NYU School of Medicine. From 2005 until 2007, Dr. Gottlieb served at the Food and Drug Administration ("FDA") as Deputy Commissioner for Medical and Scientific Affairs and before that, from 2003 until 2004, as Senior Advisor for Medical Technology to the FDA Commissioner and as the FDA's Director of Medical Policy Development. He left the FDA in the spring of 2004 to work on implementation of the new Medicare Drug Benefit as a Senior Adviser to the Administrator of Medicare and Medicaid Services, where he supported the agency's policy work on quality improvement and coverage and payment decision making, particularly related to new medical technologies. Dr. Gottlieb currently serves on the board of directors of Molecular Insight Pharmaceuticals. We believe Dr. Gottlieb's qualifications to serve on our Board include his experience as a Wall Street analyst, practicing physician, and most importantly in senior roles in the U.S. government, including his former role as Deputy Commissioner of the U.S. Food and Drug Administration. CombiMatrix operates in business segments where regulation and regulatory strategy need to be considered and Dr. Gottlieb's insights are beneficial to us. Dr. Gottlieb completed his residency in internal medicine at the Mount Sinai Hospital in New York City and is a graduate of the Mount Sinai School of Medicine and of Wesleyan University in Connecticut.

**Wei Richard Ding** has served on our Board since February 2012. He is the Chief Executive Officer and a member of the board of directors of bioTheranostics Inc., a San Diego based developer of molecular diagnostic tests and laboratory. Mr. Ding has been bioTheranostics' CEO since September 2008 and was the Vice President, Strategy and Business Development of France based bioMerieux, a global leader in the field of in vitro diagnostics from 2006 to 2008. Mr. Ding has also worked for Eli Lilly and Company, TenFold Corporation and Myriad Genetics, and is an active speaker and leader in the field of personalized medicine. We believe Mr. Ding's qualifications to serve on our Board include his detailed knowledge of the molecular diagnostics market. In addition, Mr. Ding's experience and expertise in operating an early stage diagnostics company will provide excellent insight to the Board.

**Jeremy M. Jones** has served on our Board since November 2012. He is the Chairman of On Assignment, Inc., a publicly traded professional staffing firm, where he has served as a director since May 1995. Mr. Jones has been an investor and business development consultant since February 1998. From 1987 to 1995, Mr. Jones was Chief Executive Officer and Chairman of the Board of Homedco Group, Inc., a home healthcare services company, which became publicly traded in 1991. Homedco merged into Apria Healthcare Group, Inc. in 1995 and from 1995 through January 1998, Mr. Jones was Chief Executive Officer and Chairman of the Board of Apria Healthcare Group, Inc., which also provided home healthcare services. Mr. Jones served as Chairman of the Board of Byram Healthcare Centers, a provider of retail medical supplies and wholesale medical and hospital equipment, from February 1999 until its sale in March of 2008. Mr. Jones was a director for Access Point Medical from May 2004 to December 2005. Mr. Jones was a director of US LABS, an esoteric oncology and hematopathology laboratory from November 2003 through February 2005. From July 2003 to January 2011, Mr. Jones served as Chairman of LifeCare Solutions, Inc., a provider of integrated home healthcare products and services. Mr. Jones holds a bachelor's degree in business administration from the University of Iowa. We believe Mr. Jones' qualifications to serve on our Board include his significant executive experience with the strategic, financial, and operational requirements of public health care organizations, including serving as Chairman for those organizations.

Directors and officers are elected on an annual basis. The term of each director's service expires at our next annual meeting of stockholders and at such time as his or her successor is duly elected and qualified. Officers serve at the discretion of the Board.

There are no family relationships between any of our director nominees or executive officers and any other of our director nominees or executive officers.

## BOARD OF DIRECTORS

### Overview

Our Bylaws provide that the size of our Board is to be determined from time to time by resolution of the Board but shall consist of at least five and no more than nine members. Our Board has fixed the exact number of directors at seven. Our Board currently consists of six members, four of whom—Dr. Gottlieb and Messrs. Ding, Hoffman and Jones—our Board has determined to be independent under the rules of the NASDAQ Stock Market. Mr. Jessup serves as Chairman of the Board, and we believe that separation of the Chairman and Chief Executive Officer roles supports the independent nature of our Board. At each annual meeting of stockholders, members of our Board are elected to serve until the next annual meeting and until their successors are duly elected and qualified. If the nominees named in this proxy statement are elected, the Board will consist of six persons and there will be one vacancy on the Board.

In connection with its investment in us in April 2011, HLM Venture Partners III, LP ("HLM") was given the right to require the Board to, consistent with its fiduciary duties, fill one vacancy on the Board with a director designated by HLM who is not an affiliate of HLM and who has industry experience relevant to our business and fill one vacancy on the Board with a director designated by HLM who is an affiliate of HLM. HLM has waived the requirement to maintain vacancies on our Board for this purpose, but such waiver is revocable by HLM at any time upon 45 days' prior written notice to us.

The Board has nominated Mark McDonough, R. Judd Jessup, Robert Hoffman, Scott Gottlieb, M.D., Wei Richard Ding and Jeremy M. Jones for election at the annual meeting based on the recommendation of our Nominating and Governance Committee. The nominees have agreed to serve if elected, and management has no reason to believe that the nominees will be unavailable for service. If any nominee is unable or declines to serve as a director at the time of the Annual Meeting or any adjournment or postponement thereof, the proxies will be voted for such other nominees as may be designated by the present Board.

We are subject to a number of technological, regulatory, product, legal and other types of risks. The Board and its constituent committees are responsible for overseeing these risks, and we employ a number of procedures to help them carry out that duty. For example, Board members regularly consult with executive management about pending issues and expected challenges, and at each Board meeting directors receive updates from, and have an opportunity to interview and ask questions of, key personnel and management. Furthermore, because our Chief Executive Officer serves as a member of our Board, we believe that the Board has a direct channel and better access to insights into our performance, business and challenges.

### **Committees of the Board of Directors**

The Board has established an Audit Committee, a Compensation Committee, and a Nominating and Governance Committee. Each committee operates pursuant to a charter that may be viewed on our website at [www.combimatrix.com](http://www.combimatrix.com). The inclusion of our website address in this proxy statement does not include or incorporate by reference the information on our website into this proxy statement.

**Audit Committee.** Our Audit Committee oversees our accounting and financial reporting processes and is responsible for (i) retaining, evaluating and, if appropriate, recommending the termination of our independent registered public accounting firm, (ii) approving the services performed by our independent registered public accounting firm and (iii) for reviewing and evaluating our accounting principles, financial reporting practices, and system of internal accounting controls. The Audit Committee is also responsible for maintaining communication between the Board and our independent registered public accounting firm, and has established procedures for the receipt, retention and treatment of complaints regarding accounting, internal accounting controls or auditing matters, and for the confidential, anonymous submission by our employees of concerns regarding questionable accounting or auditing matters. In addition, all related person transactions are reviewed and approved by the Audit Committee.

In 2013, our Audit Committee consisted of Messrs. Ding (the committee's Chairman), Jones and Dr. Gottlieb. Our Audit Committee currently consists of Messrs. Ding (the committee's Chairman), Hoffman and Dr. Gottlieb. The Board has determined that all members of our Audit Committee are independent under the listing standards of the NASDAQ Stock Market and the rules of the Securities and Exchange Commission, and that Mr. Ding qualifies as an "audit committee financial expert," as defined by the rules of the Securities and Exchange Commission.

**Compensation Committee.** Our Compensation Committee assists our Board in determining the compensation of our executive officers and directors. The Compensation Committee is responsible for approving the compensation package of each executive officer and recommending each executive officer's compensation to the Board. The Compensation Committee also administers our 2006 Stock Incentive Plan, as amended. The Compensation Committee may form and delegate any of its responsibilities to subcommittees when appropriate.

Our Compensation Committee in 2013 consisted of and currently consists of Messrs. Jones (the committee's Chairman), Ding and Dr. Gottlieb. The Board has determined that all members of our Compensation Committee are independent under the listing standards of the NASDAQ Stock Market.

***Nominating and Governance Committee.*** Our Nominating and Governance Committee assists our Board by identifying and recommending individuals qualified to become members of our Board (subject to legal rights, if any, of third parties to nominate or appoint directors), and establishing, evaluating and overseeing our corporate governance processes and guidelines.

In 2013, our Nominating and Governance Committee consisted of Dr. Gottlieb (the committee's Chairman) and Mr. Ding. Our Nominating and Governance Committee currently consists of Dr. Gottlieb (the committee's Chairman) and Messrs. Hoffman and Ding. The Board has determined that all members of our Nominating and Governance Committee are independent under the listing standards of the NASDAQ Stock Market.

The Nominating and Governance Committee will consider candidates recommended by stockholders. To recommend director candidates, stockholders should submit their suggestions in writing to the Corporate Secretary, providing the proposed nominee's name, biographical data and other information about the proposed nominee and the nominating stockholder(s) as required by our Bylaws, together with a consent from the proposed nominee to serve on the Board if nominated and elected.

There are no specific minimum qualifications that the Nominating and Governance Committee requires to be met by a director nominee recommended for a position on the Board, nor are there any specific qualities or skills that are necessary for one or more members of our Board to possess, other than as are necessary to meet the requirements of the rules and regulations applicable to us. The Nominating and Governance Committee considers a potential candidate's experience, areas of expertise, and other factors relative to the overall composition of the Board, including the following characteristics:

- broad experience in business, finance or administration;
- the independence requirements imposed by the Securities and Exchange Commission and the NASDAQ Stock Market; and
- a background that provides a portfolio of experience and knowledge relevant to our industry.

The Nominating and Governance Committee has the following policy with regard to the consideration of any director candidates recommended by security holders for the 2015 annual meeting of stockholders (subject to legal rights, if any, of third parties to nominate or appoint directors):

- A stockholder wishing to nominate a candidate for election to the Board at the next annual meeting is required to give written notice addressed to CombiMatrix Corporation, 310 Goddard, Suite 150, Irvine, CA 92618, Attn: Corporate Secretary, of his or her intention to make such a nomination. The notice of nomination must be received by the Corporate Secretary at this address within the timeframe required by our Bylaws, in order to be considered for nomination at the next annual meeting.
- The notice of nomination should include information regarding the recommended candidate relevant to a determination of whether the recommended candidate would be barred from being considered independent under NASDAQ Stock Market's Listing Qualifications or, alternatively, a statement that the recommended candidate would not be so barred. The notice of nomination also must include the nominee's name, age, business address, residence address, principal occupation or employment, and any other information required by Section 2.10 of our Bylaws or by applicable laws or regulations. A nomination that does not comply with these requirements will not be considered.

The Nominating and Governance Committee also considers director candidates that are suggested by its members, the Board or management. The Nominating and Governance Committee may, in the future, retain a third-party executive search firm to identify candidates on terms and conditions acceptable to the Nominating and Governance Committee, in its sole discretion. The process used by the Nominating and Governance Committee for identifying and evaluating nominees for director, including nominees recommended by stockholders, involves (with or without the assistance of a retained search firm) compiling names of potentially eligible candidates, conducting background and reference checks, conducting interviews with the candidate and others (as schedules permit), meeting to consider and approve the final candidates and, as appropriate, preparing and presenting to the full Board an analysis with regard to particular recommended candidates. The Nominating and Governance Committee endeavors to identify director nominees who have the highest personal and professional integrity, have demonstrated exceptional ability and judgment, and, together with other director nominees and members, are expected to serve the long-term interest of our stockholders and contribute to our overall corporate goals. Candidates proposed by stockholders will be evaluated by the Nominating and Governance Committee using the same criteria as for all other candidates. The Nominating and Governance Committee does not have a formal policy with respect to diversity; however, the Board and the Nominating and Governance Committee believe that it is essential that the Board members represent diverse viewpoints.

In connection with HLM's investment in us in April 2011, we agreed that, for so long as HLM and its affiliates beneficially own not less than 5% of our outstanding shares of common stock (not counting the shares underlying HLM's warrants), a reasonably acceptable designee of HLM shall be appointed to our Board and Compensation Committee. In addition, for so long as HLM and its affiliates beneficially own not less than 14% of our outstanding shares of common stock (not counting the shares underlying HLM's warrants), at HLM's request, a reasonably acceptable individual designated by HLM, who is independent of HLM and us, shall be appointed to the Board. We also agreed that for so long as HLM and its affiliates beneficially own not less than 25% of the shares of common stock issued to HLM in the private placement (treating the shares underlying HLM's warrants as if issued), at the request of HLM, the Board shall appoint one Board member designated by HLM to such committees of the Board as HLM shall request, if such designation is permitted under applicable Securities and Exchange Commission and stock exchange rules. HLM has waived the requirement to maintain vacancies on our Board for this purpose, but such waiver is revocable by HLM at any time upon 45 days' prior written notice to us.

### **Number of Meetings**

The Board held a total of 16 meetings during 2013. Our Audit Committee, Compensation Committee and Nominating and Governance Committee held five, two and two meetings, respectively, during 2013. Each incumbent director attended 75% or more of the aggregate of (i) the total number Board meetings (during the period that he served) and (ii) the total number of Board committee meetings (during the periods that he served), except that Dr. Gottlieb attended 50% of the Nominating Committee meetings due to scheduling conflicts, but received information regarding the meetings and provided his input through subsequent Board of Director meetings as well as communications with management.

### **Board Member Attendance at Annual Stockholder Meetings**

Although we do not have a formal policy regarding director attendance at annual stockholder meetings, directors are expected to attend these annual meetings absent extenuating circumstances. All of our directors who served in 2013 attended our annual meeting of stockholders in 2013, except Mr. Ding and Dr. Gottlieb.

**Director Compensation**

Directors who are also our employees receive no separate compensation from us for their service as members of the Board. Non-employee directors automatically receive a non-discretionary initial grant of options to purchase 2,000 shares of our common stock upon joining the Board. On the first business day of each calendar year, each non-employee Board member then in office is automatically granted additional options to purchase 2,000 shares of our common stock, provided such individual has served as a non-employee Board member for at least six (6) months. All such grants are granted at an exercise price equal to the closing market price on the date of grant. Options granted since 2012 vest in four equal annual installments over a 48 month period measured from the grant date.

Non-employee directors receive compensation in the amount of \$1,500 per month for their service as members of the Board. The Chairman of the Board receives compensation in the amount of \$2,000 per month for service as Chairman of the Board. During 2013, non-employee directors received \$1,000 for each meeting of the Board attended in person, \$1,000 for each meeting attended by telephone that was longer than one hour in length, and \$500 for each meeting attended by telephone if the meeting was one hour or less in length. Directors are also reimbursed for expenses incurred in connection with attendance at meetings of the Board and committees of the Board and in connection with the performance of Board duties.

**Director Compensation Table**

The following table summarizes the compensation of our directors who served during 2013 and who are not listed as named executive officers.

Name	Fees Earned or Paid In Cash (\$)	Option Awards \$(1)	All Other Compensation (\$)	Total (\$)	Outstanding And Unexercised Options to Purchase Common Stock #(2)
Mark McGowan	9,860	8,596	—	18,456	—
Scott Gottlieb, M.D.	29,000	8,596	—	37,596	7,500
Robert Hoffman.	14,325	5,028	—	19,353	—
Martin Felsenthal	7,750	8,596	—	16,346	—
Wei Richard Ding	34,500	8,596	—	43,096	1,500
Jeremy Jones	32,500	—	—	32,500	500

- (1) Amounts shown do not reflect cash compensation actually received by the directors. Instead, the amounts shown are the non-cash aggregate grant date fair values of option awards made during 2013 as determined pursuant to ASC Topic 718 and excludes the effect of forfeiture assumptions. The assumptions used to calculate the fair value of option awards are set forth under Note 2 to the Consolidated Financial Statements included in our annual report on Form 10-K for the year ended December 31, 2013 filed with the Securities and Exchange Commission ("SEC") on March 24, 2014.
- (2) Amounts shown reflect option awards vested as of June 7, 2014.

**Codes of Business Conduct and Ethics**

We have adopted a corporate Code of Business Conduct and Ethics, which may be viewed on our website at [www.combimatrix.com](http://www.combimatrix.com). The Code of Business Conduct and Ethics applies to all our officers, directors and employees, including our principal executive officer, principal financial and accounting officer and controller, or persons performing similar functions. If we effect an amendment to, or waiver from, a provision of our code of ethics, we intend to satisfy our disclosure requirements by posting a description of such amendment or waiver on the website above or via a current report on Form 8-K. The inclusion of our website address in this proxy statement does not include or incorporate by reference the information on our website into this proxy statement.

## Stockholder Communications with Directors

Stockholders wishing to communicate with the Board or with a particular member or committee of the Board should address communications to the Board, or to an individual member or committee as follows: c/o CombiMatrix Corporation, Attention: Corporate Secretary, 310 Goddard, Suite 150, Irvine, California 92618. All communications will be relayed to that addressee. From time to time, the Board may change the process through which stockholders communicate with the Board or its members or committees. There were no changes in this process in 2013. Please refer to our website at [www.combimatrix.com](http://www.combimatrix.com) for any future changes in this process. The Board or the particular director or committee of the Board to which a communication is addressed will, if it deems appropriate, promptly refer the matter either to management or to the full Board depending on the nature of the communication. The inclusion of our website address in this proxy statement does not include or incorporate by reference the information on our website into this proxy statement.

## EXECUTIVE COMPENSATION

### Summary Compensation Table

The following Summary Compensation Table sets forth certain information regarding the compensation, for services rendered in all capacities to us during 2013 and 2012, of our current principal executive officer, our two other most highly compensated executive officers at the end of 2013, and a former executive officer (together, the "named executive officers"). We did not have any other executive officers during 2013.

Names and Principal Position	Year	Salary (\$)	Bonus (\$)	Stock Awards (\$)	Option Awards (\$)(1)	All Other Compensation (\$)(2)	Total (\$)
R. Judd Jessup(3)	2013	87,231	—	—	—	—	87,231
Former President and Chief Executive Officer	2012	421,615	—	—	—	—	421,615
Scott R. Burell	2013	236,980	25,000	—	147,775	45,979	455,734
Chief Financial Officer, Secretary and Treasurer	2012	236,190	—	—	8,905	9,500	254,595
Mark McDonough(4)	2013	252,865	35,000	—	301,434	123,498	712,797
President and Chief Executive Officer; Former Chief Commercial Officer	2012	112,211	—	—	94,885	34,641	181,737
Richard D. Hockett, Jr., M.D.(5)	2013	353,561	—	—	118,219	76,222	548,002
Former Chief Medical Officer	2012	238,829	—	—	57,450	198,102	494,381

- (1) Amounts shown do not reflect cash compensation actually received by the named executive officer. Instead, the amounts shown are the non-cash aggregate grant date fair values of option awards made during the periods presented as determined pursuant to ASC Topic 718 and excludes the effect of forfeiture assumptions. The assumptions used to calculate the fair value of option awards are set forth under Note 2 to the Consolidated Financial Statements included in our annual report on Form 10-K for the year ended December 31, 2013 filed with the SEC on March 24, 2014.
- (2) Mr. Burell's Other Compensation in 2013 is for relocation costs. Mr. McDonough's Other Compensation in 2013 is for commuting and relocation costs. Dr. Hockett's Other Compensation in 2013 is for commuting and relocation costs.
- (3) Mr. Jessup resigned as President and Chief Executive Officer effective March 15, 2013.

- (4) Mr. McDonough joined us as Chief Commercial Officer on August 23, 2012 and was appointed President and Chief Executive Officer effective March 15, 2013.
- (5) Dr. Hockett was appointed Chief Medical Officer effective May 1, 2012 and resigned effective February 19, 2014. Dr. R. Weslie Tyson was appointed to replace Dr. Hockett to be effective April 8, 2014.

The objective of our executive compensation program is to attract, motivate and retain talented executives with related technical and business expertise in the competitive diagnostic laboratory market have a demonstrated ability to effectively grow revenue and control costs. We hope to retain our executives over the long term to provide continuity from year-to-year. Consequently, we have chosen to compensate our executives with a salary and, in some cases, with option awards in order to align the executive's interests with corporate success. In addition, since 2012, our executive option awards are generally granted with a four year vesting schedule in order to incentivize our executives to continue to invest their time and energy to ensure our collective success over a longer term.

In determining the total amount and mixture of the compensation for each of our named executive officers, our Compensation Committee subjectively evaluates each named executive in light of numerous factors including title and role, individual performance (including past and expected future contribution to our business objectives) and our long term business needs and goals (including the need to attract and retain key management personnel). Our Compensation Committee reviews the performance of each named executive officer annually and determines whether the named executive officer should receive an increase in base salary and/or receive an equity award based on such evaluation. The compensation reflected in the table above for Mr. McDonough in 2012 was for his services as Chief Commercial Officer. In March 2013, we increased Mr. McDonough's salary in connection with his new role as our President and Chief Executive Officer, and also offered him a bonus payable upon achieving break even earnings. We also granted performance stock options to Messrs. McDonough and Burell in order to greater incentivize achieving break even earnings.

### **Severance and Change in Control**

We provide certain severance benefits such that if an executive officer of CombiMatrix 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.

Our Board of Directors adopted a Restated Executive Change of Control Severance Plan (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), then, subject to execution of a release of claims against us, the employee will be entitled to receive: (i) a cash severance payment equal to one-half times annual base salary, in the case of other participating employees; (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, as amended (the "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.

## 2006 Stock Incentive Plan

Our 2006 Stock Incentive Plan, as amended, provides for the grant of incentive or non-statutory stock options to our employees, directors and consultants. As of December 31, 2013, options to purchase 639,019 shares of common stock were issued and outstanding, and 202,580 shares remained available for grant, under the 2006 Stock Incentive Plan. As further described in Proposal No. 3 of this proxy statement, the Board has approved the amendment and restatement of the 2006 Stock Incentive Plan, which would increase the number of shares of common stock available for grant thereunder by 848,154 shares, from 1,151,846 shares to 2,000,000 shares, and effect various other improvements thereunder, and the Board is seeking stockholder approval of the same.

The 2006 Stock Incentive Plan is administered by our Compensation Committee. Subject to the provisions of the 2006 Stock Incentive Plan, the Compensation Committee determines who will receive the options, the number of options granted, the manner of exercise and the exercise price of the options. The term of incentive stock options granted under the 2006 Stock Incentive Plan may not exceed ten years, or five years for options granted to an optionee owning more than 10% of our voting stock. The exercise price of any stock option granted under the 2006 Stock Incentive Plan must be equal to or greater than the fair market value of the shares of our common stock on the date the option is granted. However, an incentive stock option granted to an optionee owning more than 10% of our voting stock must have an exercise price equal to or greater than 110% of the fair market value of our common stock on the date the option is granted.

## Outstanding Equity Awards at Fiscal Year-End 2013

The following table sets forth information concerning the outstanding equity awards as of December 31, 2013 granted to the named executive officers.

Name	Number of Securities Underlying Unexercised Options (#)		Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Options (#)	Options Exercise Price (\$)	Option Expiration Date	Number of Shares or Units of Stock that Have Not Vested (#)	Market Value of Shares or Units of Stock that Have Not Vested (\$)	Equity Incentive Plan Awards: Number of Shares, Units or Other Rights that Have Not Vested (#)	Equity Incentive Plan Awards: Market or Payout Value of Shares, Units or Other Rights that Have Not Vested (\$)
	Exercisable	Unexercisable							
R. Judd Jessup	37,499(2)	2,500	—	27.40	8/11/2020	—	—	—	—
Scott R. Burell	6,000(3)	—	—	46.10	9/17/2017	—	—	—	—
	6,249(4)	—	—	105.00	7/21/2018	—	—	—	—
	2,749(5)	—	—	76.50	5/11/2019	—	—	—	—
	1,999(6)	1,000	—	26.00	4/08/2021	—	—	—	—
	250(7)	750	—	15.50	2/28/2022	—	—	—	—
	—(8)	55,332	—	3.23	4/29/2023	—	—	—	—
	—	—	44,265(9)	3.23	4/29/2023	—	—	—	—
Richard D. Hockett, Jr., M.D.	2,500(10)	7,500	—	10.00	5/1/2022	—	—	—	—
	—(11)	44,265	—	3.23	4/29/2023	—	—	—	—
	—	—	44,265(12)	3.23	4/29/2023	—	—	—	—
Mark McDonough	2,588(13)	7,762	—	6.14	12/20/2022	—	—	—	—
	3,212(14)	9,638	—	4.50	10/19/2022	—	—	—	—
	—(15)	73,450	—	3.36	3/15/2023	—	—	—	—
	—	—	58,760(16)	3.36	3/29/2023	—	—	—	—
	—(17)	37,214	—	3.23	4/29/2023	—	—	—	—
	—	—	29,771(18)	3.23	4/29/2023	—	—	—	—

- (1) All awards were granted under the 2006 Stock Incentive Plan. The options were granted at an exercise price equal to the closing price of our common stock on the date of grant and have a term of ten years.
- (2) These options were granted on August 11, 2010. One-fourth vest on the one-year anniversary of grant and the remaining vest monthly thereafter over a three-year period.



- (3) These options were granted on September 17, 2007 and vest quarterly over a three-year period.
- (4) These options were granted on July 21, 2008 and vest quarterly over a three-year period.
- (5) These options were granted on May 11, 2009 and vest quarterly over a three-year period.
- (6) These options were granted on April 8, 2011. One-fourth vest on the one-year anniversary of grant and the remaining vest monthly thereafter over a three-year period.
- (7) These options were granted on February 28, 2012 and vest in four equal annual installments over a 48-month period measured from the grant date.
- (8) These options were granted on April 29, 2013 and vest in four equal annual installments over a 48-month period measured from the grant date.
- (9) These options were granted on April 29, 2013 and originally were to vest when, and if, the Company achieves break-even EBITDA for one fiscal quarter within eighteen months following March 15, 2013. On February 20, 2014, the Compensation Committee of our Board of Directors approved a modification to the vesting period to be thirty months following March 15, 2013. If this target is not achieved within thirty months following March 15, 2013, the option will expire. The option is exercisable for vested shares only.
- (10) These options were granted on May 1, 2012 and vest in four equal annual installments over a 48-month period measured from the grant date.
- (11) These options were granted on April 29, 2013 and vest in four equal annual installments over a 48-month period measured from the grant date.
- (12) These options were granted on April 29, 2013 and vest when, and if, the Company achieves break-even EBITDA for one fiscal quarter within eighteen months following March 15, 2013.
- (13) These options were granted on December 20, 2012 and vest in four equal annual installments over a 48-month period measured from the vesting commencement date of August 20, 2012.
- (14) These options were granted on October 19, 2012 and vest in four equal annual installments over a 48-month period measured from the vesting commencement date of August 20, 2012.
- (15) These options were granted on March 15, 2013 and vest in four equal annual installments over a 48-month period measured from the grant date.
- (16) These options were granted on March 29, 2013 and originally were to vest when, and if, the Company achieves break-even EBITDA for one fiscal quarter within eighteen months following March 15, 2013. On February 20, 2014, the Compensation Committee of our Board of Directors approved a modification to the vesting period to be thirty months following March 15, 2013. If this target is not achieved within thirty months following March 15, 2013, the option will expire. The option is exercisable for vested shares only.
- (17) These options were granted on April 29, 2013 and vest in four equal annual installments over a 48-month period measured from the grant date.
- (18) These options were granted on April 29, 2013 and originally were to vest when, and if, the Company achieves break-even EBITDA for one fiscal quarter within eighteen months following March 15, 2013. On February 20, 2014, the Compensation Committee of our Board of Directors approved a modification to the vesting period to be thirty months following March 15, 2013. If this target is not achieved within thirty months following March 15, 2013, the option will expire. The option is exercisable for vested shares only.

## Securities Authorized for Issuance Under Equity Compensation Plans

The following table sets forth information as of December 31, 2013 relating to all of our equity compensation plans:

<u>Plan Category</u>	<u>(a) Number of shares to be issued upon exercise of outstanding options</u>	<u>(b) Weighted-average exercise price of outstanding options</u>	<u>(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))(2)</u>
Equity compensation plan approved by stockholders(1)	639,019	\$ 10.79	202,580
Equity compensation plans not approved by stockholders	—	—	—
<b>TOTAL</b>	<b>639,019</b>	<b>\$ 10.79</b>	<b>202,580</b>

- (1) Consists of our 2006 Stock Incentive Plan as amended. As further described in Proposal No. 3 of this proxy statement, the Board has approved the amendment and restatement of the 2006 Stock Incentive Plan which would increase the number of shares of common stock available for grant thereunder by 848,154 shares, from 1,151,846 shares to 2,000,000 shares, and to effect various other improvements thereunder and is seeking stockholder approval of the same.

- (2) Consists of shares available for future issuance under our 2006 Stock Incentive Plan, as of December 31, 2013. The number of shares of common stock reserved under our 2006 Stock Incentive Plan will automatically be increased on the first trading day of each year, in an amount equal to 3% of the number of shares of our common stock outstanding on the last trading day of the preceding year. On January 2, 2013, the additional reserve for our 2006 Stock Incentive Plan was automatically increased by 45,334 shares. As further described in Proposal No. 3 of this proxy statement, the Board has approved the amendment and restatement of the 2006 Stock Incentive Plan which would increase the number of shares of common stock available for grant thereunder by 848,154 shares, from 1,151,846 shares to 2,000,000 shares, and to effect various other improvements thereunder and is seeking stockholder approval of the same.

### **Compliance with Code Section 162(m)**

Section 162(m) of the Code ("Section 162(m)") generally disallows a tax deduction to a publicly traded company for compensation in excess of \$1 million paid to each of that company's chief executive officer and four other most highly compensated executive officers. Qualifying performance-based compensation is not subject to the deduction limit if certain requirements are met. In the year ended December 31, 2013, none of our executive officers received compensation in excess of \$1 million.

### **SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT**

The following table shows information regarding the beneficial ownership of our common stock as of April 8, 2014 by (a) each stockholder, or group of affiliated stockholders, that we know owns more than 5% of our outstanding common stock; (b) each of our named executive officers; (c) each of our directors; and (d) all of our current directors and executive officers as a group. The table is based upon information supplied by directors, executive officers and principal stockholders, and Schedules 13D and 13G filed with the Securities and Exchange Commission.

Percentage ownership in the table below is based on 11,063,246 shares of common stock outstanding as of April 8, 2014. Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission, and generally includes voting power and/or investment power with respect to the securities held. Any securities not outstanding but which are subject to options or warrants exercisable within 60 days of April 8, 2014 are deemed outstanding and beneficially owned for the purpose of computing the percentage of outstanding common stock beneficially owned by the stockholder holding such options or warrants, but are not deemed outstanding for the purpose of computing the percentage of common stock beneficially owned by any other stockholder.

Unless otherwise indicated, each of the stockholders listed below has sole voting and investment power with respect to the shares beneficially owned. The address for each director or named executive officer is c/o CombiMatrix Corporation, 310 Goddard, Suite 150, Irvine, California 92618.

<u>Name of Beneficial Owner</u>	<u>No. of Shares Beneficially Owned</u>	<u>Percentage</u>
<b>Officers and Directors</b>		
Mark McDonough(1)	34,967	*
Scott R. Burell(2)	32,942	*
Richard D. Hockett Jr., M.D.(3)	1,000	*
R. Judd Jessup(4)	56,991	*
Scott Gottlieb, M.D.(5)	7,700	*
Wei Richard Ding(6)	1,500	*
Jeremy M. Jones(7)	500	*
Robert E. Hoffman(8)	48,544	*
All current directors and executive officers as a group (8 persons)	184,144	1.6%
<b>5% Stockholders Not Listed Above</b>		
Great Point Partners, LLC(9)	1,095,541	9.9%
Jeffrey R. Jay, M.D.(9)	1,095,541	9.9%
David Kroin(9)	1,095,541	9.9%

\* Less than 1.0%.

- (1) Includes 1,500 shares of common stock. Also includes options to purchase 33,467 shares of common stock that were exercisable within 60 days of April 8, 2014.
- (2) Includes 912 shares of common stock. Also includes options to purchase 31,642 shares of common stock and warrants to purchase 388 shares of common stock that were exercisable within 60 days of April 8, 2014.
- (3) Includes 1,000 shares of common stock. Also includes options to purchase 2,500 shares of common stock that were exercisable within 60 days of April 8, 2014.
- (4) Includes 13,679 shares of common stock. Also includes options to purchase 37,499 shares of common stock and warrants to purchase 5,813 shares of common stock that were exercisable within 60 days of April 8, 2014. Shares and warrants are held by the R. Judd & Charlene L. Jessup Trust.
- (5) Includes 200 shares of common stock and options to purchase 7,500 shares of common stock that were exercisable within 60 days of April 8, 2014.
- (6) Includes options to purchase 1,500 shares of common stock that were exercisable within 60 days of April 8, 2014.
- (7) Includes options to purchase 500 shares of common stock that were exercisable within 60 days of April 8, 2014.
- (8) Includes 24,272 shares of common stock. Also includes warrants to purchase 24,272 shares of common stock that were exercisable within 60 days of April 8, 2014.

- (9) Includes (i) 151,363 shares of common stock and 297,936 shares of common stock issuable upon exercise of warrants owned by Biomedical Value Fund, LP ("BVF"), (ii) 89,038 shares of common stock and 175,257 shares of common stock issuable upon exercise of warrants owned by Biomedical Offshore Value Fund, Ltd. ("BOVF"), (iii) 56,391 shares of common stock and 110,996 shares of common stock issuable upon exercise of warrants owned by Biomedical Institutional Value Fund, LP ("BIVF"), (iv) 61,049 shares of common stock and 120,166 shares of common stock issuable upon exercise of warrants owned by Class D Series of GEF-PS, LP ("GEF-PS"), (v) 2,442 shares of common stock and 4,807 shares of common stock issuable upon exercise of warrants owned by David J. Morrison ("Morrison") and (vi) 8,792 shares of common stock and 17,304 shares of common stock issuable upon exercise of warrants owned by WS Investments II, LLC ("WS"). Does not include 244,408 shares of common stock issuable upon the exercise of the warrants collectively held by BVF, BOVF, BIVF, GEF-PS, Morrison and WS. The provisions of the warrants restrict the exercise of such warrants to the extent that, after giving effect to such exercise, the holder of such warrants and its affiliates and any other person or entities with which such holder would constitute a group would beneficially own in excess of 9.99% of the number of shares of common stock of the Company outstanding immediately after giving effect to such exercise. Great Point Partners, LLC ("Great Point") is the investment manager of BVF, BOVF, BIVF, GEF-PS, Morrison and WS, and therefore it may be deemed to be the beneficial owner of the shares of common stock, including the shares of common stock issuable upon exercise of the warrants, owned by each of BVF, BOVF, BIVF, GEF-PS, Morrison and WS. Jeffrey R. Jay, M.D. ("Dr. Jay") is a senior managing member of Great Point, and Mr. David Kroin ("Mr. Kroin") is a special managing member of Great Point. Each of Dr. Jay and Mr. Kroin, as senior managing member of Great Point and special managing member of Great Point, respectively, has voting power over the shares of common stock owned by each of BVF, BOVF, BIVF, GEF-PS, Morrison and WS, and consequently they each may be deemed to be the beneficial owner of the shares of common stock, including the shares of common stock issuable upon exercise of the warrants, owned by each of BVF, BOVF, BIVF, GEF-PS, Morrison and WS. Each of Great Point, Dr. Jay and Mr. Kroin disclaim beneficial ownership of such shares. The reported mailing address for each of Great Point, Dr. Jay and Mr. Kroin is 165 Mason Street, 3<sup>rd</sup> Floor, Greenwich, CT 06830. Information based solely upon investor filings with the SEC.

#### CERTAIN TRANSACTIONS

Since January 1, 2013, there has not been, nor has there been proposed, any transaction, arrangement or relationship or series of similar transactions, arrangements or relationships, including those involving indebtedness not in the ordinary course of business, to which we or our subsidiaries were or are a party, or in which we or our subsidiaries were or are a participant, in which the amount involved exceeded or exceeds the lesser of \$120,000 or 1% of the average of our total assets at year end for the last two completed fiscal years and in which any of our directors, nominees for director, executive officers, beneficial owners of more than 5% of any class of our voting securities or any member of the immediate family of any of the foregoing persons, had or will have a direct or indirect material interest, other than as described above under the heading "Executive Compensation" and other than the transactions described below. Each of the transactions described below was reviewed and approved or ratified by our Audit Committee.

On February 20, 2014, pursuant to the authority granted under the CombiMatrix Corporation 2006 Stock Incentive Plan, the Compensation Committee of the Company adopted a 2014 Executive Performance Bonus Plan (the "Bonus Plan"), effective as of January 1, 2014, to provide certain members of the Company's senior management the opportunity to earn incentive bonuses based on the Company's attainment of specific financial performance objectives for 2014. The Compensation Committee determined that the Company's Chief Executive Officer, Mark McDonough, and the Company's Chief Financial Officer, Scott Burell, are eligible to receive such awards under the Bonus Plan.

Upon the commencement of Dr. Tyson's employment, Dr. Tyson will be an eligible participant under the Bonus Plan at the same level as our CFO. A participant's bonus under the Bonus Plan will consist of a cash incentive and will be based on achievement of between 90% and 150% of the Company's 2014 net revenue target as determined by the Company's Compensation Committee. If the Company achieves 90% of the target net revenue, the CEO's cash bonus will equal \$77,500 and the CFO's and CMO's cash bonus will equal \$55,000; if the Company achieves 100% of the target net revenue, the CEO's cash bonus will equal \$155,000 and the CFO's and CMO's cash bonus will equal \$110,000; if the Company achieves 110% of the target net revenue, the CEO's cash bonus will equal \$180,000 and the CFO's and CMO's cash bonus will equal \$135,000; if the Company achieves 130% of the target net revenue, the CEO's cash bonus will equal \$240,000 and the CFO's and CMO's cash bonus will equal \$190,000; and if the Company achieves 150% of the target net revenue, the CEO's cash bonus will equal \$270,000 and the CFO's and CMO's cash bonus will equal \$220,000 (and bonus payments will be computed on a pro rata basis between 101% and 150% of the target achieved). Cash bonus payments, if earned, will be paid once the Company's auditors have completed their annual audit and the actual 2014 net revenues are known, and will be paid out within seventy five days following December 31, 2014. In order to receive a bonus payment, the participant must be employed by the Company or its subsidiary at the time bonuses are computed and distributed.

On February 20, 2014, pursuant to the authority granted under our 2006 Stock Incentive Plan, our Compensation Committee granted 136,909 restricted stock units to our Chief Executive Officer, Mark McDonough, 68,454 restricted stock units to our Chief Financial Officer, Scott Burell, and 17,495 restricted stock units to each of our non-employee Board members. 25% of the shares of common stock subject to the restricted stock units vest on each anniversary of the grant date over a four year period. The restricted stock units may vest on an accelerated basis in accordance with the terms of our 2006 Stock Incentive Plan and our Restated Executive Change of Control Severance Plan and, in the event of death or a permanent disability, the vesting of the restricted stock unit will accelerate by twelve months.

On March 3, 2014, we entered into an offer letter with R. Weslie Tyson, M.D. for Dr. Tyson to serve as our Medical Director and Chief Medical Officer. Dr. Tyson's employment will be effective April 8, 2014. The terms of this offer letter provide that Dr. Tyson will receive an annual base salary of \$325,000. The offer letter also provides that Dr. Tyson will receive a restricted stock unit award for 60,000 shares of common stock which will vest 25% on each anniversary of the grant date over a four year period. He will also be eligible to participate in the Bonus Plan. We will also pay to move his household goods from Colorado to California, reimburse him for the realtor commission on the sale of his house in Colorado, provide him a one bedroom apartment for up to six months in Irvine, California until his family joins him in Southern California and reimburse him for one house hunting trip for his family, all of which will be grossed up to negate any applicable tax consequences. Dr. Tyson also will be eligible to participate in our Severance Plan.

Future transactions with our officers, directors or greater than five percent stockholders will be on terms no less favorable to us than could be obtained from independent third parties, and all such transactions will be reviewed and subject to approval by members of our Audit Committee.

#### **SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE**

Section 16(a) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), requires our directors, officers, and persons that own more than 10 percent of a registered class of our equity securities to file reports of ownership and changes in ownership with the SEC. Officers, directors and greater than 10 percent stockholders are required by SEC regulations to furnish us with copies of all Section 16(a) forms they file.

Based solely upon our review of the copies of such forms received by us during the year ended December 31, 2013, we believe that each person who, at any time during such year, was a director, officer, or beneficial owner of more than 10% of our common stock met the filing requirements during such year.

## PRINCIPAL ACCOUNTANTS

### Principal Accountant Fees and Services

*Audit and Audit-Related Fees.* Fees for audit and audit related services by our principal independent registered public accounting firm, Haskell & White LLP ("H&W"), for the years ended December 31, 2013 and 2012 were as follows:

	<u>2013</u>	<u>2012</u>
Audit fees	\$ 87,500	\$ 89,000
Audit related fees	61,675	19,232
Total audit and audit related fees	<u>\$ 149,175</u>	<u>\$ 108,232</u>

*Tax Fees; All Other Fees.* We were not billed for any tax fees or for any other fees from our principal accountants in 2013 or 2012.

### Audit Committee Pre-Approval Policies and Procedures

The Audit Committee charter provides that the Audit Committee will pre-approve all audit services and non-audit services to be provided by our independent auditors before the accountant is engaged to render these services. The Audit Committee may consult with management in the decision-making process but may not delegate this authority to management. The Audit Committee may delegate its authority to pre-approve services to one or more committee members, provided that the designees present the pre-approvals to the full committee at the next committee meeting. All audit and non-audit services performed by our independent accountants have been pre-approved by our Audit Committee to assure that such services do not impair the auditors' independence from us.

### Determination of Independence

There were no fees billed by H&W for non-audit services.

### Attendance at Annual Meeting

Representatives from H&W are expected to be present at the annual meeting, will have the opportunity to make a statement if they desire to do so, and are expected to be available to respond to appropriate questions.

## **REPORT OF THE AUDIT COMMITTEE OF THE BOARD OF DIRECTORS**

The Audit Committee has reviewed and discussed the audited financial statements with management. The Audit Committee has discussed with the independent auditors the matters required to be discussed by Statement on Auditing Standards No. 61, as amended (AICPA, Professional Standards, Vol. 1. AU section 380), as adopted by the Public Company Accounting Oversight Board in Rule 3200T, as well as the matters required to be discussed by Auditing Standard No. 16 as adopted by the Public Company Accounting Oversight Board. The Audit Committee also has received the written disclosures and the letter from the independent accountant required by applicable requirements of the Public Company Accounting Oversight Board regarding the independent accountant's communications with the Audit Committee concerning independence and has discussed with the independent accountant the accountant's independence. Based on the review and discussions referred to above, the Audit Committee recommended to the Company's Board of Directors that the audited financial statements be included in the Company's annual report on Form 10-K for the year ended December 31, 2013.

Respectfully submitted,

AUDIT COMMITTEE

Wei Richard Ding, Chairman  
Scott Gottlieb, M.D.  
Robert E. Hoffman

## PROPOSALS

### PROPOSAL NO. 1—ELECTION OF DIRECTORS

#### Overview

There are currently six members of our Board. The terms of all of our directors are scheduled to expire at the 2014 Annual Meeting of Stockholders, at which time all six of the incumbents will stand for re-election.

#### Nominees

Upon the recommendation of our Nominating and Governance Committee, the Board has nominated the following individuals to serve until the 2015 annual meeting of stockholders and until their respective successors are duly elected and qualified:

Mark McDonough  
R. Judd Jessup  
Robert E. Hoffman  
Scott Gottlieb, M.D.  
Wei Richard Ding  
Jeremy M. Jones

#### Vote Required

A plurality of the shares present in person or represented by proxy at the meeting and entitled to vote on the election of directors will be required to elect Board nominees. The six nominees receiving the highest number of affirmative votes cast at the Annual Meeting will be the elected as our directors. Proxies cannot be voted for a greater number of persons than the number of nominees named.

#### Recommendation

The Board recommends that stockholders vote **FOR** the election of each of the above-listed nominees.

**Unless marked otherwise, proxies received will be voted FOR the election of each of these director nominees.**

**PROPOSAL NO. 2—APPROVAL OF AN AMENDMENT TO OUR CERTIFICATE OF INCORPORATION TO INCREASE THE NUMBER OF AUTHORIZED SHARES OF COMMON STOCK TO 35,000,000**

**Overview**

Our Certificate of Incorporation currently provides that we are authorized to issue two classes of stock, consisting of 25,000,000 shares of common stock, par value \$0.001 per share, and 5,000,000 shares of Preferred Stock, par value \$0.001 per share. As of April 8, 2014, approximately 11,063,246 shares of common stock were issued and outstanding. No shares of preferred stock are issued and outstanding.

The following table sets forth certain information with respect to our common stock:

<u>Common Stock</u>	<u>As of April 8, 2014</u>
Shares issued and outstanding	11,063,246
Shares reserved for issuance upon the exercise of outstanding options and vesting of outstanding restricted stock units	1,077,709
Shares reserved for issuance upon the exercise of outstanding common stock warrants	7,499,566
Shares reserved for issuance pursuant to future grants under our 2006 Stock Incentive Plan	60,015
<b>Total</b>	<u>19,700,536</u>
Shares presently authorized for issuance	<u>25,000,000</u>

Each additional share of common stock authorized by the proposed amendment to our Certificate of Incorporation will have the same rights and privileges as each share of common stock presently authorized.

While there are no statutory preemptive rights pursuant to which stockholders may receive or purchase any of the additional shares of common stock to be authorized by the proposed amendment, certain investors in our past private placements have a right of first refusal to participate in certain future issuances of securities by us on a pro rata basis with their initial investment.

The Board believes our current capital structure is inadequate for our present and future needs. Accordingly, our Board has approved, subject to stockholder approval, an amendment to our Certificate of Incorporation to increase the authorized number of shares of common stock from 25,000,000 to 35,000,000, which increases our total authorized capital stock to 40,000,000 shares. The Board is asking our stockholders to approve this amendment.

**Purpose of Authorizing Additional Common Stock**

The authorization of an additional 10,000,000 shares of common stock would give our Board the express authority to issue such shares of common stock from time to time as our Board deems necessary. Our Board believes it is necessary and advisable to have the ability to issue such additional shares of common stock for any proper corporate purpose including, but not limited to, option and warrant grants, convertible debt and equity financings, and any possible future acquisitions. Our Board believes that having these additional shares available will provide the Board with the flexibility it needs to respond quickly, and without the delays inherent in obtaining stockholder approval, should shares be required for these or any other corporate purposes.

As of the date of this proxy statement, our Board has no present specific plans, understandings or agreements for the issuance of the proposed additional authorized shares of common stock, other than pursuant to the exercise of stock options and warrants. Our Board, however, believes that if an increase in the authorized number of shares of common stock were to be postponed until a specific need arose, the delay and expense incident to obtaining the approval of our stockholders at that time could significantly impair our ability to meet our strategic objectives. The additional shares of common stock would be available for issuance by our Board without any future action by the stockholders, unless such action were specifically required by applicable law or the rules of the NASDAQ Stock Market, and for such consideration that our Board may determine is appropriate and as may be permitted by applicable law.

If our Certificate of Incorporation is not amended as set forth in this proposal, we will have no ability to undertake further equity or convertible debt financing.

### **Possible Effects of Increase in Authorized Common Stock**

If this proposal is approved by the stockholders, our Board will have the authority to issue the additional authorized shares of common stock, or any part thereof, without further action by the stockholders except as required by law or applicable requirements of the NASDAQ Stock Market. In addition to the issuance of additional common stock, our Certificate of Incorporation, as amended, currently empowers our Board to authorize the issuance of one or more series of preferred stock without stockholder approval.

The proposed increase in the authorized number of shares of common stock could have an anti-takeover effect, in that additional shares could be issued, within the limits imposed by applicable law, in one or more transactions that could discourage, delay or make more difficult a change in control or takeover of the Company, although this is not the present intent of our Board. For example, additional shares could be issued by us to dilute the stock ownership or voting rights of persons seeking to obtain control of the Company and thereby increase the cost of acquiring a given percentage of our outstanding stock. Similarly, the issuance of additional shares to certain persons allied with our management and/or Board could have the effect of making it more difficult to remove our current management and/or directors by diluting the stock ownership or voting rights of persons seeking to cause such removal. Although this proposal to increase the authorized number of shares of common stock has been prompted by business considerations and not by the threat of any hostile takeover attempt (nor is our Board currently aware of any such attempts directed at the Company), stockholders should be aware that approval of the amendment to the Certificate of Incorporation could facilitate future efforts by us to deter or prevent changes in control of the Company, including transactions in which the stockholders might otherwise receive a premium for their shares over then-current market prices.

In addition, the issuance of additional shares by us could have an effect on the potential realizable value of a stockholder's investment. In the absence of a proportionate increase in our earnings and book value (or decrease in our net loss), an increase in the aggregate number of outstanding shares of the common stock caused by the issuance of additional shares would dilute the earnings per share and book value per share (or increase the loss per share) of all outstanding shares of our capital stock. If such factors were reflected in the price per share of common stock, the potential realizable value of a stockholder's investment could be adversely affected.

While authorization of the additional shares will not directly dilute the proportionate voting power or other rights of existing stockholders, future issuances of common stock enabled by authorization of the additional shares could reduce the proportionate ownership of existing holders of common stock, and, depending on the price at which such shares are issued, may be dilutive to the existing stockholders.

## **Proposed Amendment**

If this proposal is approved, the proposed amendment to our Certificate of Incorporation amending and restating Article IV, Section 1 thereof will be adopted in the following form:

"Section 1. *Authorization* . The total number of shares of all classes of stock that the Corporation is authorized to issue is Forty Million (40,000,000) shares, consisting of Thirty-Five Million (35,000,000) shares of Common Stock with a par value of \$0.001 per share, and Five Million (5,000,000) shares of Preferred Stock with a par value of \$0.001 per share."

## **Vote Required**

The proposal to approve the amendment to our Certificate of Incorporation to increase the number of authorized shares of common stock to 35,000,000 will be approved if the holders of a majority of the shares of common stock outstanding as of the Record Date and entitled to vote at the Annual Meeting vote in favor of the proposal.

## **Recommendation**

The Board recommends that stockholders vote **FOR** approval of the amendment to our Certificate of Incorporation to increase the number of authorized shares of common stock from 25,000,000 to 35,000,000.

**Unless marked otherwise, proxies received will be voted FOR Proposal Two.**

**PROPOSAL NO. 3—APPROVAL OF THE AMENDMENT AND RESTATEMENT OF OUR 2006 STOCK INCENTIVE PLAN TO INCREASE THE NUMBER OF SHARES OF COMMON STOCK AVAILABLE FOR GRANT THEREUNDER BY 848,154 SHARES, FROM 1,151,846 SHARES TO 2,000,000 SHARES, AND TO EFFECT VARIOUS OTHER IMPROVEMENTS THEREUNDER**

**Overview**

We are seeking stockholder approval to amend and restate our 2006 Stock Incentive Plan (as proposed to be amended, the "Plan") to increase the number of shares of common stock available for grant thereunder by 848,154 shares, from 1,151,846 shares to 2,000,000 shares, and to effect various other improvements thereunder, including the removal of the annual "evergreen" reserve increase feature. On April 7, 2014, subject to stockholder approval, our Board approved the amendment and restatement of the 2006 Stock Incentive Plan to increase the number of shares of common stock available for grant thereunder by 848,154 shares, from 1,151,846 shares to 2,000,000 shares, and to effect various other improvements thereunder, and is seeking stockholder approval of the same. We believe that this amount of increase is necessary in order to attract and retain talented employees and management.

A copy of the Plan is attached to this proxy statement as *Appendix A* and is incorporated herein by reference. The following summary of the material terms of the Plan does not purport to be a complete description of the Plan and is qualified in its entirety by reference to the complete copy of the Plan in *Appendix A*.

**Plan Description**

*Administration.* Our Plan is administered by our Board or any committee designated by the Board consisting of not less than two directors. However, administration of the Plan with respect to persons subject to Section 16 of the Exchange Act is done by our Compensation Committee or another committee that qualifies under the requirements of Section 16. Subject to the terms of our Plan, other than in connection with the automatic grant program described below, the plan administrator is authorized to select eligible persons to receive awards under the Plan, determine the type, number and other terms and conditions of, and all other matters relating to, awards, prescribe award agreements (which need not be identical for each plan participant), and the rules and regulations for the administration of the Plan, construe and interpret the Plan and award agreements, and make all other decisions and determinations as the plan administrator may deem necessary or advisable for the administration of our Plan. The plan administrator may not, without prior approval of our stockholders and the consent of the affected holder, reduce the exercise price of any outstanding award under the Plan, cancel any outstanding award and grant in substitution a new award covering the same or a different number of shares, cash or other property or similar action that is treated as a re-pricing under generally accepted accounting principles.

*Eligibility.* The persons eligible to receive awards under our Plan are the employees, members of our Board, consultants and other independent advisers who provide services to us or any related entity. However, only our employees and employees of our subsidiaries or any parent may receive incentive stock options.

*Types of Awards.* Our Plan provides for the issuance of stock options, stock appreciation rights, stock awards, share right awards and performance awards. Performance awards may be based on the achievement of certain business criteria or goals, as determined by the plan administrator, and may consist of stock-based awards or cash bonuses.

*Shares Available for Awards; Annual Per-Person Limitations.* The total number of shares of common stock that may be subject to the granting of awards under our Plan at any time during the term of the Plan shall be equal to 2,000,000 shares. Notwithstanding the foregoing, with respect to incentive stock options, no more than 3,000,000 shares may be issued under the Plan. Shares will become available for issuance under new awards to the extent awards previously granted under our Plan are forfeited, expire or otherwise terminate without issuance of shares. Notwithstanding anything to the contrary in the Plan, the following shares will not again become available for issuance under the Plan: (i) any shares which would have been issued upon any exercise of an option but for the fact that the exercise was paid by a cancellation of such shares, (ii) any shares withheld by us or tendered to satisfy any tax withholding obligation with respect to an option or stock appreciation right, (iii) shares covered by a stock appreciation right issued under the Plan that are not issued in connection with settlement in shares upon exercise or (iv) shares that are repurchased by us using option exercise proceeds.

Our Plan imposes individual limitations on certain awards. Under these limitations, at such time as awards granted under the Plan may qualify as "performance-based" compensation pursuant to Section 162(m), then during any fiscal year, no participant may be granted stock options or stock appreciation rights with respect to more than 200,000 shares and no participant may be granted stock or share right awards with respect to more than 200,000 shares, subject to adjustment upon certain changes in our capitalization. The maximum dollar value that may be paid out to any participant for any performance award with respect to awards granted in any calendar year is \$1,000,000.

In the event that any stock dividend, recapitalization, forward or reverse split, reorganization, merger, combination, share exchange or other similar corporate transaction or event affects the shares of our common stock, appropriate adjustment will be made by the plan administrator to (i) the maximum number, type and/or class of securities that may be issued under the Plan and the maximum number of shares that may be issued pursuant to incentive stock options, (ii) the number type and/or class of shares by which award limitations are measured, as described in the preceding paragraph, (iii) the number type and/or class of shares subject to or deliverable in respect of outstanding awards, (iv) the number type and/or class of shares subject to or deliverable in respect of the automatic option grant program for non-employee directors, (v) the exercise price, grant price or purchase price relating to any award or the provision for payment of cash or other property in respect of any outstanding award, and (vi) the maximum number, type and/or class of securities by which the share reserve is to increase automatically each calendar year pursuant to the terms of the Plan and (vii) any other aspect of any award that the plan administrator determines to be appropriate.

*Stock Options and Stock Appreciation Rights.* The plan administrator is authorized to grant stock options, including both incentive stock options, which can result in potentially favorable tax treatment to the recipient, and non-qualified stock options, and stock appreciation rights ("SARs") entitling the recipient to receive the amount by which the fair market value of a share of common stock on the date of exercise exceeds the grant price of the SAR. The exercise price per share subject to an option and the grant price of a SAR are determined by the plan administrator, but in the case of a stock option must not be less than the fair market value of a share of common stock on the date of grant. For purposes of our Plan, the term "fair market value" means the fair market value of our common stock, awards or other property as determined by the plan administrator or under procedures established by the plan administrator. Unless otherwise determined by the plan administrator, the fair market value of a share of our common stock as of any given date shall be the closing sales price per share of common stock as reported on the principal stock exchange or market on which the common stock is traded on the date as of which such value is being determined or, if there is no sale on that date, then on the last previous day on which a sale was reported. The maximum term of each option or SAR, the times at which each option or SAR will be exercisable, and provisions requiring forfeiture of unexercised options or SARs at or following termination of service generally are fixed by the plan administrator, except that no stock option may have a term exceeding ten years. Methods of exercise and settlement and other terms of the stock options and SARs are determined by the plan administrator. The plan administrator determines the methods in which the exercise price of options awarded under the Plan may be paid, which may include cash, shares, other awards or other property (including, to the extent permitted by law, loans to participants) or a cashless exercise procedure.

*Restricted Stock and Stock Units.* The plan administrator is authorized to grant shares of stock, including restricted stock, and share right awards. Restricted stock is a grant of shares of common stock which may not be sold or disposed of, and which may be forfeited in the event of certain terminations of employment, prior to the end of a restricted period specified by the plan administrator. A participant granted restricted stock generally has all of the rights of a stockholder, unless otherwise determined by the plan administrator. A share right award confers upon a participant the right to receive shares of common stock at the end of a specified period, subject to possible forfeiture of the award in the event of certain terminations of employment prior to the end of such specified period. Prior to settlement, a share right award carries no voting or dividend rights or other rights associated with share ownership.

*Performance Awards.* The plan administrator is authorized to grant performance awards, consisting of stock-based awards and/or cash bonuses, to participants on terms and conditions established by the plan administrator. The performance criteria to be achieved during any performance period and the length of the performance period is determined by the plan administrator upon the grant of the performance award. Performance awards may be valued by reference to a designated number of shares of common stock or by reference to a designated amount of property including cash. Performance awards may be settled by delivery of cash, shares or other property, or any combination thereof, as determined by the plan administrator. Performance awards granted to persons whom the plan administrator expects will, for the year in which a deduction arises, be "covered employees" (as described below) will, if and to the extent intended by the plan administrator, be subject to provisions that should qualify such awards as "performance based compensation" not subject to the limitation on tax deductibility under Section 162(m). For purposes of Section 162(m), the term "covered employee" means our Chief Executive Officer and each other person whose compensation is required to be disclosed in our filings with the Securities and Exchange Commission by reason of that person being among our three highest compensated officers (other than the Chief Executive Officer) as of the end of a taxable year. If and to the extent required under Section 162(m), any power or authority relating to a performance award intended to qualify under Section 162(m) is to be exercised by the plan administrator and not the board of directors.

If and to the extent that the plan administrator determines that these provisions of our Plan are to be applicable to any award, one or more of the following business criteria, on a consolidated basis, and/or for our subsidiaries, or for our business or geographical units and/or a related entity, shall be used by the plan administrator in establishing performance goals for awards under our Plan: (1) earnings per share; (2) revenues or margins; (3) cash flow; (4) operating margin; (5) return on net assets, investment, capital, or equity; (6) direct contribution; (7) net income; pretax earnings; (8) earnings before interest and taxes; earnings before interest, taxes, depreciation and amortization; earnings after interest expense and before extraordinary or special items; operating income; income before interest income or expense, unusual items and income taxes, local, state or federal and excluding budgeted and actual bonuses which might be paid under any ongoing bonus plans of the company; (9) working capital; (10) management of fixed costs or variable costs; (11) identification or consummation of investment opportunities or completion of specified projects in accordance with corporate business plans, including strategic mergers, acquisitions or divestitures; (12) total shareholder return; and (13) debt reduction. Any of the above goals may be determined on a relative or absolute basis or as compared to the performance of a published or special index deemed applicable by the plan administrator.

*Automatic Grant Program.* Under the Plan, each non-employee member of our Board, upon his or her appointment or initial election to our Board, is granted an option to purchase 2,000 shares of our common stock. In addition, on the first business day of each calendar year, each non-employee member of our Board who has served as a non-employee Board member for at least six months is automatically granted an additional option to purchase 2,000 shares of our common stock. Options granted automatically to the non-employee members of our Board have an exercise price equal to 100% of the fair market value of our common stock on the grant date and are exercisable for 10 years following their date of grant. Options granted since 2012 vest in four equal annual installments over a 48-month period measured from the grant date. Previously, these awards vested quarterly over a twelve-month period.

*Transferability.* Awards granted under our Plan generally may not be pledged or otherwise encumbered and are not transferable except by will or by the laws of descent and distribution, or to a designated beneficiary upon the participant's death, except to the extent expressly permitted by the plan administrator in the award agreement.

*Acceleration of Vesting; Change in Control.* The plan administrator may, in its discretion, accelerate the exercisability, the lapsing of restrictions or the expiration of deferral or vesting periods of any award, including if we undergo a "change in control", as defined in our Plan.

*Amendment and Termination.* The Board may amend, alter, suspend, discontinue or terminate our Plan without further stockholder approval, except stockholder approval must be obtained for any amendment or alteration that increases the shares reserved for issuance under the Plan or increases the classes of participants eligible under the Plan or if such approval is required by applicable law or regulation. Our Plan will terminate on the earliest of (i) the tenth anniversary of the effective date of the Plan, (ii) the tenth anniversary of the date of stockholder approval of the Plan; (iii) the date that all shares under the Plan have been issued and are fully vested and (iv) the termination of all outstanding awards in connection with a change in control. Awards outstanding upon expiration of our Plan shall remain in effect until they have been exercised or terminated, or have expired.

## **Certain Federal Income Tax Consequences**

The following is a summary of the principal U.S. federal income tax consequences generally applicable to awards made under the Plan.

*Options and SARs.* The grant of an option or SAR is not expected to result in any taxable income for the recipient. The holder of an incentive stock option generally will have no taxable income upon exercising the incentive stock option (except that an alternative minimum tax liability may result), and we will not be entitled to a tax deduction when an incentive stock option is exercised. Upon exercising an option other than an incentive stock option, the option holder must recognize ordinary income equal to the excess of the fair market value of the shares of our common stock acquired on the date of exercise over the exercise price, and we will generally be entitled at that time to a tax deduction for the same amount. Upon the exercise of an SAR, the amount of any cash received and the fair market value on the exercise date of any shares of our common stock received are taxable to the recipient as ordinary income, and are deductible by us.

The tax consequence upon a disposition of shares of our common stock acquired through the exercise of an option or SAR will depend on how long the shares have been held and whether the shares were acquired by exercising an incentive stock option or by exercising a non-incentive stock option or SAR. Generally, there will be no tax consequences to us in connection with the disposition of shares acquired pursuant to an option or SAR. However, we may be entitled to a tax deduction in the case of a disposition of shares acquired pursuant to an incentive stock option before the applicable incentive stock option holding periods set forth in the Code have been satisfied.

*Other Awards.* For other awards granted under the Plan that are payable in cash or shares of our common stock and that are either transferable or not subject to substantial risk of forfeiture, the holder of such an award must recognize ordinary income equal to the excess of (a) the cash or the fair market value of the shares of our common stock received (determined as of the date of such receipt) over (b) the amount (if any) paid for the shares of our common stock by the holder of the award. We will generally be entitled at that time to a deduction for the same amount if and to the extent that amount satisfies general rules concerning deductibility of compensation.

For an award that is payable in shares of our common stock that are restricted as to transferability and subject to substantial risk of forfeiture, unless a special election is made pursuant to Section 83(b) of the Code, the holder of the award must recognize ordinary income equal to the excess of (x) the fair market value of the shares of our common stock received (determined as of the first time the shares became transferable or not subject to substantial risk of forfeiture, whichever occurs earlier) over (y) the amount (if any) paid for the shares of our common stock by the holder. We will generally be entitled at that time to a tax deduction for the same amount if and to the extent that amount satisfies general rules concerning deductibility of compensation.

*Special Rules.* Special rules may apply in the case of individuals subject to Section 16 of the Exchange Act. In particular, unless a special election is made pursuant to Section 83(b) of the Code, shares of our common stock received pursuant to the exercise of an option or SAR may be treated as restricted as to transferability and subject to a substantial risk of forfeiture for a period of up to six months after the date of exercise. Accordingly, the amount of any ordinary income recognized, and the amount of our tax deduction, may be determined as of the end of such period.

*Deductibility of Executive Compensation Under Code Section 162(m).* Section 162(m) generally limits to \$1,000,000 the amount that a publicly-held corporation is allowed each year to deduct for the compensation paid to each of the corporation's chief executive officer and the corporation's other three most highly compensated executive officers (other than the chief executive officer). However, "qualified performance-based compensation" is not subject to the \$1,000,000 deduction limit. In general, to qualify as performance-based compensation, the following requirements need to be satisfied: (1) payments must be computed on the basis of an objective, performance-based compensation standard determined by a committee consisting solely of two or more "outside directors," (2) the material terms under which the compensation is to be paid, including the business criteria upon which the performance goals are based, and a limit on the maximum bonus amount which may be paid to any participant pursuant with respect to any performance period, must be approved by a majority of the corporation's stockholders and (3) the committee must certify that the applicable performance goals were satisfied before payment of any performance-based compensation.

The Plan has been designed to permit grants of options and SARs issued under the Plan to qualify under the performance-based compensation rules so that income attributable to the exercise of a non-incentive stock option or an SAR may be exempt from \$1,000,000 deduction limit. Grants of other awards under the Plan may also qualify for this exemption. The Plan's provisions are consistent in form with the performance-based compensation rules, so that if the committee that grants options, SARs or other awards consists exclusively of members of our board of directors who qualify as "outside directors," and the exercise price (or deemed exercise price, with respect to SARs) is not less than the fair market value of the shares of our common stock to which such grants relate, the compensation income should qualify as performance-based compensation which is deductible even if that income would be in excess of the otherwise applicable limits on deductible compensation income under Section 162(m).

## Accounting Treatment

We account for stock-based compensation under Accounting Standards Codification 718, Compensation—Stock Compensation, which requires the fair value of all option grants or stock issuances made to employees or directors on or after January 1, 2007, as well as a portion of the fair value of each option and stock grant made to employees or directors prior to that date which represents the unvested portion of these share-based awards as of such implementation date, to be recognized as an expense. These amounts are expensed over the respective vesting periods of each award using the straight-line attribution method. We calculate stock option-based compensation by estimating the fair value of each option as of its date of grant using the Black-Scholes option pricing model.

**Plan Benefits**

Except with respect to the non-employee director automatic grant program, awards under the Plan are made at the discretion of our Compensation Committee. It is not possible to determine the benefits or amounts that will be received by eligible participants under the Plan after the date of this proxy statement because no decisions have been made on the amount and type of awards to be granted under the Plan to eligible participants in the future, nor do we have any specific current plans or commitments for granting any future awards, other than stock option awards to be made automatically to our non-employee directors under the automatic grant program described above.

The following table sets forth, with respect to our named executive officers and the other indicated persons and groups, the aggregate number of shares of common stock underlying stock options and restricted stock units that have been granted under our Plan from the effective date of the Plan through April 8, 2014. As of April 8, 2014, there are currently 45 participants under the Plan.

<u>Name and Position</u>	<u>Number of Shares Underlying Options</u>	<u>Number of Shares Underlying Restricted Stock Units</u>
R. Judd Jessup Chairman and former President and Chief Executive Officer	41,999	17,495
Mark McDonough President, Chief Executive Officer and Director	222,395	136,909
Scott R. Burell Chief Financial Officer, Secretary and Treasurer	118,594	68,454
R. Weslie Tyson, M.D. Chief Medical Officer	—	60,000
Richard D. Hockett, Jr., M.D. Former Chief Medical Officer	2,500	—
Scott Gottlieb, M.D. Director	12,000	17,495
Wei Richard Ding Director	6,000	17,495
Jeremy M. Jones Director	4,000	17,495
Robert E. Hoffman Director	2,000	17,495
All current executive officers, as a group	343,489	265,363
All current directors who are not executive officers, as a group	65,999	87,475
All employees, including all current officers who are not executive officers, as a group	277,001	27,382

**Vote Required**

The proposal to approve the amendment and restatement of our 2006 Stock Incentive Plan to increase the number of shares of common stock available for grant thereunder by 848,154 shares, from 1,151,846 shares to 2,000,000 shares, and to effect various other improvements thereunder, will be approved if a majority of the total votes cast on the proposal in person or by proxy are cast in favor of the proposal.

**Recommendation**

The Board recommends that stockholders vote **FOR** approval of the amendment and restatement of our 2006 Stock Incentive Plan to increase the number of shares of common stock available for grant thereunder 848,154 shares, from 1,151,846 shares to 2,000,000 shares, and to effect various other improvements thereunder.

**Unless marked otherwise, proxies received will be voted FOR Proposal Three.**

## **PROPOSAL NO. 4—RATIFICATION OF APPOINTMENT OF HASKELL & WHITE LLP**

### **Overview**

The Audit Committee has engaged the registered public accounting firm of Haskell & White LLP as our independent registered public accounting firm to audit our financial statements for the year ending December 31, 2014. Haskell & White LLP audited our financial statements for the years ended December 31, 2013 and December 31, 2012. Please refer to "Principal Accountants" above for information about fees and services paid to Haskell & White LLP in 2013 and 2012, and our Audit Committee's pre-approval policies. Stockholder ratification of such selection is not required by our Bylaws or other applicable legal requirement. However, our Board is submitting the selection of Haskell & White LLP to stockholders for ratification as a matter of good corporate practice. In the event that stockholders fail to ratify the selection, our Audit Committee will reconsider whether or not to retain that firm. Even if the selection is ratified, our Audit Committee in its discretion may direct the appointment of a different independent registered public accounting firm at any time during the year if our Audit Committee believes that such a change would be in our and our stockholders' best interests.

Representatives of Haskell & White LLP are expected to be present at the Annual Meeting, will have the opportunity to make a statement if they desire to do so and are expected to be available to respond to appropriate questions.

### **Vote Sought**

The proposal to ratify the appointment of Haskell & White LLP as our independent registered public accounting firm to audit our financial statements for the year ending December 31, 2014 will be approved if a majority of the shares of common stock present in person or represented by proxy at the Annual Meeting and entitled to vote at the Annual Meeting are voted in favor of the proposal.

### **Recommendation**

The Board recommends that stockholders vote " **FOR** " the proposal to ratify the appointment of Haskell & White LLP as our independent registered public accounting firm to audit our financial statements for the year ending December 31, 2014.

**Unless marked otherwise, proxies received will be voted FOR Proposal Four.**

## OTHER BUSINESS

We know of no other matters to be submitted to the stockholders at the Annual Meeting. If any other matters properly come before the stockholders at the Annual Meeting, the persons named on the enclosed proxy card intend to vote the shares they represent as the Board may recommend.

## ANNUAL REPORT ON FORM 10-K

On March 24, 2014, we filed our annual report on Form 10-K for the year ended December 31, 2013. A copy of the annual report on Form 10-K has been sent concurrently with this proxy statement to all stockholders entitled to notice of and to vote at the annual meeting.

## STOCKHOLDER PROPOSALS

Stockholders may present proposals for action at a future meeting if they comply with SEC rules, state law and our Bylaws.

Pursuant to Rule 14a-8 under the Exchange Act, some stockholder proposals may be eligible for inclusion in the proxy statement for our 2015 Annual Meeting of Stockholders (the "2015 Annual Meeting"). These stockholder proposals, along with proof of ownership of our stock in accordance with Rule 14a-8(b)(2), must be received by us not later than January 5, 2015, which is 120 calendar days prior to the anniversary date of the mailing of notice of this proxy statement. Stockholders are also advised to review our Bylaws which contain additional advance notice requirements, including requirements with respect to advance notice of stockholder proposals (other than non-binding proposals presented under Rule 14a-8) and director nominations.

The proxies to be solicited by us through our Board for our 2015 Annual Meeting will confer discretionary authority on the proxy holders to vote on any stockholder proposal presented at that meeting, unless we receive notice of such stockholder's proposal not later than March 23, 2015, which is 45 calendar days prior to the anniversary date of the mailing of notice of this proxy statement.

Stockholder proposals must be in writing and should be addressed to c/o CombiMatrix Corporation, Attention: Corporate Secretary, 310 Goddard, Suite 150, Irvine, California 92618. It is recommended that stockholders submitting proposals direct them to our corporate secretary and utilize certified mail, return receipt requested in order to provide proof of timely receipt. The Chairman of the Annual Meeting reserves the right to reject, rule out of order or take other appropriate action with respect to any proposal that does not comply with these and other applicable requirements, including conditions set forth in our Bylaws and conditions established by the SEC.

We have not been notified by any stockholder of his or her intent to present a stockholder proposal from the floor at this year's Annual Meeting. The enclosed proxy grants the proxy holders discretionary authority to vote on any matter properly brought before this year's Annual Meeting.

BY ORDER OF THE BOARD OF DIRECTORS

  


Mark McDonough  
*President, Chief Executive Officer and Director*

May 5, 2014  
Irvine, California

**COMBIMATRIX CORPORATION**  
**2006 STOCK INCENTIVE PLAN**  
**(as amended and restated [DATE], 2014)**

**ARTICLE ONE**  
**GENERAL PROVISIONS**

**I. PURPOSE OF THE PLAN**

This CombiMatrix Corporation 2006 Stock Incentive Plan is intended to promote the interests of CombiMatrix Corporation, a Delaware corporation, by providing eligible persons in the Corporation's Service with the opportunity to acquire a proprietary interest, or otherwise increase their proprietary interest, in the Corporation as an incentive for them to remain in such Service.

Capitalized terms shall have the meanings assigned to such terms in the attached Appendix.

**II. STRUCTURE OF THE PLAN**

A. The Plan shall be divided into three separate equity incentive programs:

- the Discretionary Option/Stock Appreciation Right Grant Program under which eligible persons may, at the discretion of the Plan Administrator, be granted options to purchase shares of Common Stock,
- the Stock Issuance Program under which eligible persons may, at the discretion of the Plan Administrator, be issued shares of Common Stock directly, either through the immediate purchase of such shares or as a bonus for services rendered the Corporation (or any Parent or Subsidiary),
- the Automatic Option Grant Program under which eligible non-employee Board members shall automatically receive option grants at designated intervals over their period of continued Board Service, and

B. The provisions of Articles One and Five shall apply to all equity incentive programs under the Plan and shall govern the interests of all persons under the Plan.

**III. ADMINISTRATION OF THE PLAN**

A. The Committee shall have sole and exclusive authority to administer the Discretionary Option Grant and Stock Issuance Programs with respect to Section 16 Insiders. Administration of the Discretionary Option Grant and Stock Issuance Programs with respect to all other persons eligible to participate in those programs may, at the Board's discretion, be vested in the Committee, or the Board may retain the power to administer those programs with respect to all such persons. Other than with respect to Section 16 Insiders, the Board may also appoint an Executive Officer Committee to administer the Discretionary Option Program and Stock Issuance Program, subject to the applicable limitations and requirements of the Delaware Corporate Law. However, any discretionary option grants or stock issuances to members of the Committee must be authorized and approved by a disinterested majority of the Board.

B. Members of the Committee or, if applicable, the Executive Officer Committee, shall serve for such period of time as the Board may determine and may be removed by the Board at any time.

C. The Plan Administrator shall, within the scope of its administrative functions under the Plan, have full power and authority (subject to the provisions of the Plan) to establish such rules and regulations as it may deem appropriate for proper administration of the Discretionary Option Grant and Stock Issuance Programs and to make such determinations under, and issue such interpretations of, the provisions of those programs and any outstanding options or stock issuances thereunder as it may deem necessary or advisable. Decisions of the Plan Administrator within the scope of its administrative functions under the Plan shall be final and binding on all parties who have an interest in the Discretionary Option Grant and Stock Issuance Programs under its jurisdiction or any stock option or stock issuance thereunder.

D. Service on the Committee shall constitute Service as a Board member, and members of each such committee shall accordingly be entitled to full indemnification and reimbursement as Board members for their service on such committee. No member of the Committee or, if applicable, the Executive Officer Committee, shall be liable for any act or omission made in good faith with respect to the Plan or any option grants or stock issuances under the Plan.

E. Administration of the Automatic Option Grant Program shall be self-executing in accordance with the terms of those programs, and no Plan Administrator shall exercise any discretionary functions with respect to any option grants or stock issuances made under those programs.

#### **IV. ELIGIBILITY**

A. The persons eligible to participate in the Discretionary Option Grant and Stock Issuance Programs are as follows:

- (i) Employees,
- (ii) non-employee members of the Board or the board of directors of any Parent or Subsidiary, and
- (iii) consultants and other independent advisors who provide services to the Corporation (or any Parent or Subsidiary).

B. The Plan Administrator shall, within the scope of its administrative jurisdiction under the Plan, have full authority to determine, (i) with respect to the option grants under the Discretionary Option Grant Program, which eligible persons are to receive such grants, the time or times when those grants are to be made, the number of shares to be covered by each such grant, the status of the granted option as either an Incentive Option or a Non-Statutory Option, if, and the extent to which, each option is to be exercisable at a different time or times than those times set forth in Section I.B.1. of Article Two of the Plan, the vesting schedule (if any) applicable to the option shares and the maximum term for which the option is to remain outstanding and (ii) with respect to stock issuances under the Stock Issuance Program, which eligible persons are to receive such issuances, the time or times when the issuances are to be made, the number of shares to be issued to each Participant, the vesting schedule (if any) applicable to the issued shares and the consideration for such shares.

C. The Plan Administrator shall have the absolute discretion either to grant options in accordance with the Discretionary Option/Stock Appreciation Right Grant Program or to effect stock issuances in accordance with the Stock Issuance Program.

D. The individuals who shall be eligible to participate in the Automatic Option Grant Program shall be limited to (i) those individuals who first become non-employee Board members after the Plan Effective Date, whether through appointment by the Board or election by the Corporation's stockholders, and (ii) those individuals who continue to serve as non-employee Board members on the first business day in each calendar year following the Plan Effective Date and during the term of the Plan, including any individuals who first became non-employee Board members prior to such Plan Effective Date.

A non-employee Board member who has previously been in the employ of the Corporation (or any Parent or Subsidiary) shall not be eligible to receive an option grant under the Automatic Option Grant Program at the time he or she first becomes a non-employee Board member, but shall be eligible to receive periodic option grants under the Automatic Option Grant Program while he or she continues to serve as a non-employee Board member.

## V. STOCK SUBJECT TO THE PLAN

A. The stock issuable under the Plan shall be shares of authorized but unissued or reacquired Common Stock, including shares repurchased by the Corporation on the open market. Subject to adjustment by the Plan Administrator pursuant to Section V.E below, effective [DATE], 2014, the number of shares of Common Stock reserved for issuance over the term of the Plan shall not exceed 2,000,000 shares of Common Stock. For purposes of clarification, the shares of Common Stock subject to the Assumed Options are not included in the 2,000,000 shares of Common Stock reserved hereunder for issuance pursuant to this paragraph, though the shares of Common Stock subject to the Assumed Options may become available for grant under this Plan to the extent provided in Article One, Section V.D. below. (See Amendment to this Section V.A. below on page 25).

B. The maximum aggregate number of shares of Common Stock that may be issued under the Plan (as adjusted for all such annual increases) through Incentive Options shall be 3,000,000 shares of Common Stock.

C. At such time as stock option or stock appreciation rights granted under the Plan may qualify as performance-based compensation under Code Section 162(m), no one person participating in the Plan may receive stock options or separately exercisable stock appreciation rights for more than 200,000 shares of Common Stock in the aggregate per calendar year. At such time as direct stock issuances or share right awards granted under the Plan may qualify as performance-based compensation under Code Section 162(m), no one person participating in the Plan may receive direct stock issuances or share right awards for more than 200,000 shares of Common Stock in the aggregate per calendar year. In addition, the maximum dollar value payable to any one Participant with respect to awards granted under Article Five, Section VIII.B. is \$1,000,000 per calendar year.

D. Shares of Common Stock subject to outstanding options, Assumed Options or stock appreciation rights shall be available for subsequent issuance under the Plan to the extent such shares are not issued pursuant to such options, Assumed Options or stock appreciation rights prior to the expiration, termination or cancellation of such options, Assumed Options or stock appreciation rights for any reason. Shares of Common Stock subject to outstanding share right awards shall be available for subsequent issuance under the Plan to the extent those share right awards expire, terminate or are cancelled for any reason prior to the issuance of all shares of Common Stock subject to such share right awards. Unvested shares issued under the Plan and subsequently cancelled, forfeited or repurchased by the Corporation, at a price per share not greater than the original issue price paid per share, pursuant to the Corporation's repurchase rights under the Plan shall be added back to the number of shares of Common Stock reserved for issuance under the Plan. Notwithstanding anything to the contrary in this Section, the following shares of Common Stock will not again become available for issuance under the Plan: (i) any shares of Common Stock which would have been issued upon any exercise of an option but for the fact that the exercise was paid by a cancellation of such shares of Common Stock pursuant to Section I.A.2.ii of Article Two, (ii) any shares of Common Stock withheld by the Corporation or shares of Common Stock tendered to satisfy any tax withholding obligation with respect to an option or stock appreciation right, (iii) shares of Common Stock covered by a stock appreciation right issued under the Plan that are not issued in connection with settlement in shares of Common Stock upon exercise, or (iv) shares of Common Stock that are repurchased by the Corporation using option exercise proceeds.

E. If any change is made to the Common Stock by reason of any stock split, stock dividend, recapitalization, merger, reorganization, combination of shares, exchange of shares or other change affecting the outstanding Common Stock as a class without the Corporation's receipt of consideration, appropriate adjustments shall be made by the Plan Administrator to (i) the maximum number, type and/or class of securities issuable under the Plan, (ii) the maximum number, type and/or class of securities for which any one person may be granted (x) stock options and separately exercisable stock appreciation rights and (y) direct stock issuances and share right awards under the Plan per calendar year, (iii) the number, type and/or class of securities for which grants are subsequently to be made under the Automatic Option Grant Program to new and continuing non-employee Board members, (iv) the number, type and/or class of securities and the exercise price per share in effect under each outstanding option and stock appreciation right under the Plan, (v) the number, kind and/or class of securities under each share right award, and (vi) the maximum number, type and/or class of securities by which the share reserve is to increase automatically each calendar year pursuant to the provisions of Section V.B. of this Article One. Such adjustments to the outstanding awards are to be effected in a manner which shall preclude the enlargement or dilution of rights and benefits under such options. The adjustments determined by the Plan Administrator shall be final, binding and conclusive.

## ARTICLE TWO

### DISCRETIONARY OPTION/STOCK APPRECIATION RIGHT GRANT PROGRAM

#### I. OPTION TERMS

Each option shall be evidenced by one or more documents in the form approved by the Plan Administrator; provided, however, that each such document shall comply with the terms specified below. Each document evidencing an Incentive Option shall, in addition, be subject to the provisions of the Plan applicable to such options.

##### A. EXERCISE PRICE.

1. The exercise price per share shall be fixed by the Plan Administrator but shall not be less than one hundred percent (100%) of the Fair Market Value per share of Common Stock on the option grant date.

2. The exercise price shall become immediately due upon exercise of the option and shall, subject to the provisions of the documents evidencing the option, be payable in one or more of the forms specified below:

(i) cash or check made payable to the Corporation, or

(ii) shares of Common Stock held for the requisite period necessary to avoid a charge to the Corporation's earnings for financial reporting purposes and valued at Fair Market Value on the Exercise Date (including the cancellation of shares of Common Stock subject to the option), or

(iii) to the extent the option is exercised for vested shares, through a special sale and remittance procedure pursuant to which the Optionee shall concurrently provide irrevocable instructions to (a) a Corporation-designated brokerage firm to effect the immediate sale of the purchased shares and remit to the Corporation, out of the sale proceeds available on the settlement date, sufficient funds to cover the aggregate exercise price payable for the purchased shares plus all applicable Federal, state and local income and employment taxes required to be withheld by the Corporation by reason of such exercise and (b) the Corporation to deliver the certificates for the purchased shares directly to such brokerage firm in order to complete the sale, or

(iv) Any other form of legal consideration, as determined by the Plan Administrator and specifically included in the stock option agreement.

Except to the extent such sale and remittance procedure is utilized, payment of the exercise price for the purchased shares must be made on the Exercise Date.

B. EXERCISE AND TERM OF OPTIONS.

1. Each option shall vest and be exercisable at such time or times, during such period and for such number of shares as shall be determined by the Plan Administrator and set forth in the documents evidencing the option.
2. Notwithstanding any other provision of the Plan, no option shall have a term in excess of ten (10) years measured from the option grant date.

C. EFFECT OF TERMINATION OF SERVICE.

1. The following provisions shall govern the exercise of any options held by the Optionee at the time of cessation of Service or death:

(i) *Termination of Service.* Subject to earlier termination of the option as otherwise provided in the Plan and unless otherwise specifically provided by the Plan Administrator with respect to an option and set forth in the award agreement (either at grant or by amendment at a later time), an option shall remain exercisable, to the extent vested, after a Optionee's termination of Service only during the applicable time period determined in accordance with this Section and thereafter shall terminate and no longer be exercisable:

(A) *Death or Permanent Disability.* If the Optionee's Service terminates because of the death or Permanent Disability of the Optionee, the option, to the extent unexercised, vested and exercisable on the date on which the Optionee's Service terminated, may be exercised by the Optionee (or the Optionee's legal representative or estate, as applicable) at any time prior to the expiration of twelve (12) months (or such other period of time as determined by the Plan Administrator, in its discretion) after the date on which the Optionee's Service terminated, but in any event only with respect to the unexercised and vested portion of the option and not after the maximum term of the option.

(B) *Termination for Misconduct.* Notwithstanding any other provision of the Plan to the contrary, if the Optionee's Service is terminated for Misconduct or should the Optionee otherwise engage in Misconduct while holding one or more outstanding options, then all such options shall terminate immediately and cease to be outstanding.

(C) *Other Termination of Service.* If the Optionee's Service terminates for any reason, except Permanent Disability, death or Misconduct, the option, to the extent unexercised, vested and exercisable by the Optionee on the date on which the Optionee's Service terminated, may be exercised by the Optionee at any time prior to the expiration of ninety (90) days (or such longer or shorter period of time as determined by the Plan Administrator, in its discretion) after the date on which the Optionee's Service terminated, but in any event only with respect to the unexercised and vested portion of the option and not the maximum term of the option.

(ii) Any option held by the Optionee at the time of death and exercisable in whole or in part at that time may be subsequently exercised by the personal representative of the Optionee's estate or by the person or persons to whom the option is transferred pursuant to the Optionee's will or the laws of descent and distribution or by the Optionee's designated beneficiary or beneficiaries of that option.

(iii) During the applicable post-Service exercise period, the option may not be exercised in the aggregate for more than the number of vested shares for which the option is exercisable on the date of the Optionee's cessation of Service. Upon the expiration of the applicable exercise period or (if earlier) upon the expiration of the option term, the option shall terminate and cease to be outstanding for any vested shares for which the option has not been exercised. However, the option shall, immediately upon the Optionee's cessation of Service, terminate and cease to be outstanding to the extent the option is not otherwise at that time exercisable for vested shares.

2. The Plan Administrator shall have complete discretion, exercisable either at the time an option is granted or at any time while the option remains outstanding, to:

(i) extend the period of time for which the option is to remain exercisable following the Optionee's cessation of Service from the limited exercise period otherwise in effect for that option to such greater period of time as the Plan Administrator shall deem appropriate, but in no event beyond the expiration of the option term and in no event to such extent to make the option subject to Section 409A (unless given the prior consent of the Optionee), and/or

(ii) permit the option to be exercised, during the applicable post-Service exercise period, not only with respect to the number of vested shares of Common Stock for which such option is exercisable at the time of the Optionee's cessation of Service but also with respect to one or more additional installments in which the Optionee would have vested had the Optionee continued in Service.

D. STOCKHOLDER RIGHTS. The holder of an option shall have no stockholder rights with respect to the shares subject to the option until such person shall have exercised the option, paid the exercise price and become a holder of record of the purchased shares.

E. REPURCHASE RIGHTS. The Plan Administrator shall have the discretion to grant options which are exercisable for unvested shares of Common Stock. Should the Optionee cease Service while holding such unvested shares, the Corporation shall have the right, but not the obligation, to repurchase any or all of those unvested shares at a price per share equal to the *lower* of (i) the exercise price paid per share or (ii) the Fair Market Value per share of Common Stock at the time of the Optionee's cessation of Service. The terms upon which such repurchase right shall be exercisable (including the period and procedure for exercise and the appropriate vesting schedule for the purchased shares) shall be established by the Plan Administrator and set forth in the document evidencing such repurchase right.

F. LIMITED TRANSFERABILITY OF OPTIONS. During the lifetime of the Optionee, Incentive Options shall be exercisable only by the Optionee and shall not be assignable or transferable other than by will or the laws of descent and distribution following the Optionee's death. Non-Statutory Options shall be subject to the same limitation, except as otherwise determined by the Plan Administrator, including an assignment to the Optionee's Immediate Family. To the extent that a Non-Statutory Option is assigned, the assigned portion may only be exercised by the person or persons who acquire a proprietary interest in the option pursuant to the assignment. The terms applicable to the assigned portion shall be the same as those in effect for the option immediately prior to such assignment and shall be set forth in such documents issued to the assignee as the Plan Administrator may deem appropriate. Notwithstanding the foregoing, the Optionee may also designate one or more persons as the beneficiary or beneficiaries of his or her outstanding options under this Article Two, and those options shall, in accordance with such designation, automatically be transferred to such beneficiary or beneficiaries upon the Optionee's death while holding those options. Such beneficiary or beneficiaries shall take the transferred options subject to all the terms and conditions of the applicable agreement evidencing each such transferred option, including (without limitation) the limited time period during which the option may be exercised following the Optionee's death.

## II. INCENTIVE OPTIONS

The terms specified below shall be applicable to all Incentive Options. Except as modified by the provisions of this Section II, all the provisions of Articles One and Two shall be applicable to Incentive Options. Options which are specifically designated as Non-Statutory Options when issued under the Plan shall not be subject to the terms of this Section II.

A. ELIGIBILITY. Incentive Options may only be granted to Employees.

B. EXERCISE PRICE. The exercise price per share shall not be less than one hundred percent (100%) of the Fair Market Value per share of Common Stock on the option grant date.

C. DOLLAR LIMITATION. The aggregate Fair Market Value of the shares of Common Stock (determined as of the respective date or dates of grant) for which one or more options granted to any Employee under the Plan (or any other option plan of the Corporation or any Parent or Subsidiary) may for the first time become exercisable as Incentive Options during any one calendar year shall not exceed the sum of One Hundred Thousand Dollars (\$100,000). To the extent the Employee holds two (2) or more such options which become exercisable for the first time in the same calendar year, the foregoing limitation on the exercisability of such options as Incentive Options shall be applied on the basis of the order in which such options are granted. To the extent that the options exceed this limit, the excess amount shall be considered Non-Statutory Options.

D. FAILURE TO QUALIFY AS INCENTIVE OPTION. To the extent that any option governed by this Plan does not qualify as an Incentive Option, by reason of the dollar limitation described in Section II.C of this Article Two or for any other reason, such option shall be exercisable as a Non-Statutory Option under the Federal tax laws.

E. 10% STOCKHOLDER. If any Employee to whom an Incentive Option is granted is a 10% Stockholder, then the exercise price per share shall not be less than one hundred ten percent (110%) of the Fair Market Value per share of Common Stock on the option grant date, and the option term shall not exceed five (5) years measured from the option grant date.

## III. STOCK APPRECIATION RIGHT TERMS

The Plan Administrator may grant stock appreciation rights either in conjunction with all or part of any option or without regard to any option, in each case upon such terms and conditions as the Plan Administrator may establish in its sole discretion, not inconsistent with the provisions of the Plan. Each stock appreciation right shall be evidenced by one or more documents in the form approved by the Plan Administrator; *provided*, however, that each such document shall comply with the terms specified below.

A. RIGHT TO PAYMENT.

1. Each stock appreciation right shall confer on the Participant to whom it is granted a right to receive, upon exercise thereof, the excess of (A) the Fair Market Value of one share of Common Stock on the date of exercise over (B) the per share strike price of the stock appreciation right.

2. The Plan Administrator shall determine the method of settlement, form of consideration payable in settlement and method by or forms in which shares of Common Stock will be delivered or deemed to be delivered to Participants.

3. The strike price per share shall be fixed by the Plan Administrator but shall not be less than one hundred percent (100%) of the Fair Market Value per share of Common Stock on the stock appreciation right grant date.

B. EXERCISE AND TERM OF STOCK APPRECIATION RIGHTS. Each stock appreciation right shall be exercisable at such time or times, during such period and for such number of shares as shall be determined by the Plan Administrator and set forth in the documents evidencing the stock appreciation right. However, no stock appreciation right shall have a term in excess of ten (10) years measured from the stock appreciation right grant date.

C. EFFECT OF TERMINATION OF SERVICE.

1. The following provisions shall govern the exercise of any stock appreciation rights held by the Participant at the time of cessation of Service or death:

(i) Any stock appreciation right outstanding at the time of the Participant's cessation of Service for any reason shall remain exercisable for such period of time thereafter as shall be determined by the Plan Administrator and set forth in the documents evidencing the stock appreciation right, but no such stock appreciation right shall be exercisable after the expiration of the stock appreciation right term.

(ii) Any stock appreciation right held by the Participant at the time of death and exercisable in whole or in part at that time may be subsequently exercised by the personal representative of the Participant's estate or by the person or persons to whom the stock appreciation right is transferred pursuant to the Participant's will or the laws of inheritance or by the Participant's designated beneficiary or beneficiaries of that stock appreciation right.

(iii) Should the Participant's Service be terminated for Misconduct or should the Participant otherwise engage in Misconduct while holding one or more outstanding stock appreciation rights under this Article Two, then all those stock appreciation rights shall terminate immediately and cease to be outstanding.

(iv) During the applicable post-Service exercise period, the stock appreciation right may not be exercised in the aggregate for more than the number of vested shares for which the stock appreciation right is exercisable on the date of the Participant's cessation of Service. Upon the expiration of the applicable exercise period or (if earlier) upon the expiration of the stock appreciation right term, the stock appreciation right shall terminate and cease to be outstanding for any vested shares for which the stock appreciation right has not been exercised. However, the stock appreciation right shall, immediately upon the Participant's cessation of Service, terminate and cease to be outstanding to the extent the stock appreciation right is not otherwise at that time exercisable for vested shares.

2. The Plan Administrator shall have complete discretion, exercisable either at the time an stock appreciation right is granted or at any time while the stock appreciation right remains outstanding, to:

(i) extend the period of time for which the stock appreciation right is to remain exercisable following the Participant's cessation of Service from the limited exercise period otherwise in effect for that stock appreciation right to such greater period of time as the Plan Administrator shall deem appropriate, but in no event beyond the expiration of the stock appreciation right term, and/or

(ii) permit the stock appreciation right to be exercised, during the applicable post-Service exercise period, not only with respect to the number of vested shares of Common Stock for which such stock appreciation right is exercisable at the time of the Participant's cessation of Service but also with respect to one or more additional installments in which the Participant would have vested had the Participant continued in Service.

D. STOCKHOLDER RIGHTS. The holder of an stock appreciation right shall have no stockholder rights with respect to the shares subject to the stock appreciation right until such person shall have exercised the stock appreciation right, received shares of common stock in connection with such exercise and become a holder of record of the purchased shares.

E. LIMITED TRANSFERABILITY OF STOCK APPRECIATION RIGHTS. During the lifetime of the Participant, stock appreciation rights shall be exercisable only by the Participant and shall not be assignable or transferable other than by will or the laws of inheritance following the Participant's death, except that the Plan Administrator may structure one or more stock appreciation rights under the Discretionary Option/Stock Appreciation Right Grant Program so that each such stock appreciation right may be assigned in whole or in part during the Participant's lifetime to one or more members of the Participant's family or to a trust established exclusively for one or more such family members or to Participant's former spouse, to the extent such assignment is in connection with the Participant's estate plan or pursuant to a domestic relations order. The assigned portion may only be exercised by the person or persons who acquire a proprietary interest in the stock appreciation right pursuant to the assignment. The terms applicable to the assigned portion shall be the same as those in effect for the stock appreciation right immediately prior to such assignment and shall be set forth in such documents issued to the assignee as the Plan Administrator may deem appropriate. Notwithstanding the foregoing, the Participant may also designate one or more persons as the beneficiary or beneficiaries of his or her outstanding stock appreciation rights under this Article Two, and those stock appreciation rights shall, in accordance with such designation, automatically be transferred to such beneficiary or beneficiaries upon the Participant's death while holding those stock appreciation rights. Such beneficiary or beneficiaries shall take the transferred stock appreciation rights subject to all the terms and conditions of the applicable agreement evidencing each such transferred stock appreciation right, including (without limitation) the limited time period during which the stock appreciation right may be exercised following the Participant's death.

#### **IV. CHANGE IN CONTROL/HOSTILE TAKE-OVER**

A. Except as otherwise provided in this Section IV, none of the outstanding options or stock appreciation rights under the Discretionary Option/Stock Appreciation Right Grant Program shall vest in whole or in part on an accelerated basis upon the occurrence of a Change in Control, and those options and stock appreciation rights may be assumed, continued or substituted for by any successor corporation in the Change in Control.

B. Except as otherwise provided in this Section IV, none of the outstanding repurchase rights under the Discretionary Option/Stock Appreciation Right Grant Program shall terminate on an accelerated basis upon the occurrence of a Change in Control, and those rights shall be assignable to any successor corporation in the Change in Control.

C. Unless an option or stock appreciation right is assumed, continued or substituted for by the successor corporation (or parent thereof) or otherwise continued in full force and effect pursuant to the terms of the Change in Control transaction, if a Change in Control occurs while the Optionee remains in Service, the shares of Common Stock at the time subject to each outstanding option or stock appreciation right held by such Optionee but not otherwise vested shall automatically accelerate so that each such option or stock appreciation right shall, immediately prior to the effective date of the Change in Control, vest and become exercisable for all the shares of Common Stock at the time subject to such option or stock appreciation right and may be exercised for any or all of those shares as fully vested shares of Common Stock. The Corporation shall provide each holder of an option or a stock appreciation right that is accelerated in accordance with this paragraph at least five (5) business days notice of the vesting acceleration. Immediately following the consummation of the Change in Control, each option or stock appreciation right shall terminate and cease to be outstanding, except to the extent assumed or substituted for by the successor corporation (or parent thereof) or otherwise continued in full force and effect pursuant to the express terms of the Change in Control transaction.

D. The Plan Administrator shall have the discretionary authority to structure one or more options or stock appreciation rights grants under the Discretionary Option/Stock Appreciation Right Grant Program so that the vesting and exercisability of each option or stock appreciation right shall automatically accelerate in whole or in part, either (i) immediately prior to the effective date of that Change in Control or Hostile Takeover, and become exercisable for all the shares of Common Stock at the time or (ii) upon an event occurring after the Change in Control or Hostile Takeover (including a termination of employment). In addition, the Plan Administrator may structure one or more of the Corporation's repurchase rights so that those rights shall immediately terminate, in whole or in part, with respect to any shares held by the Participant (and the shares subject to those terminated repurchase rights shall accordingly vest in full) either (i) immediately prior to the effective date of that Change in Control or Hostile Takeover, or (ii) upon an event occurring after the Change in Control or Hostile Takeover (including a termination of employment).

E. Each option which is assumed or substituted for in connection with a Change in Control or otherwise continued in effect shall be appropriately adjusted, immediately after such Change in Control, to apply to the number and class of securities which would have been issuable to the Optionee in consummation of such Change in Control had the option been exercised immediately prior to such Change in Control. Appropriate adjustments to reflect such Change in Control shall also be made to (i) the exercise price payable per share under each outstanding option, provided the aggregate exercise price payable for such securities shall remain the same, (ii) the maximum number, type and/or class of securities available for issuance over the remaining term of the Plan, (iii) the maximum number, type and/or class of securities by which the share reserve is to increase each calendar year pursuant to the automatic share increase provisions of the Plan and (iv) the maximum number, type and/or class of securities for which any one person may be granted options, separately exercisable stock appreciation rights and direct stock issuances or share right awards under the Plan per calendar year. To the extent the actual holders of the Corporation's outstanding Common Stock receive cash consideration for their Common Stock in consummation of the Change in Control transaction, the successor corporation may, in connection with the assumption of the outstanding options under the Discretionary Option Grant Program, substitute one or more shares of its own common stock (or those of its parent) with a fair market value equivalent to the cash consideration paid per share of Common Stock in such Change in Control transaction.

F. Unless otherwise determined by the Plan Administrator and expressly set forth in the documents evidencing the option, each option outstanding under the Discretionary Option/Stock Appreciation Right Grant Program at the time of a Hostile Take-Over but not otherwise exercisable for all the shares of Common Stock subject to such option at that time shall, immediately prior to the effective date of a Hostile Take-Over, automatically vest and become exercisable for all the shares of Common Stock at that time subject to such options on an accelerated basis and may be exercised for any or all of such shares as fully vested shares of Common Stock. In addition, all of the Corporation's repurchase rights under the Discretionary Option/Stock Appreciation Right Grant Program shall terminate automatically upon the consummation of such Hostile Take-Over, and the shares subject to those terminated rights shall thereupon immediately vest in full, except to the extent such accelerated vesting is precluded by limitations imposed by the Plan Administrator at the time the repurchase right is issued. Each option so accelerated shall remain exercisable for fully vested shares of Common Stock until the expiration or sooner termination of the option term.

G. The portion of any Incentive Option accelerated in connection with a Change in Control or Hostile Take-Over shall remain exercisable as an Incentive Option only to the extent the applicable One Hundred Thousand Dollar (\$100,000) limitation is not exceeded. To the extent such dollar limitation is exceeded, the excess accelerated portion of such option shall be exercisable as a Non-Statutory Option under the Federal tax laws.

H. The grant of options under the Discretionary Option/Stock Appreciation Right Grant Program shall in no way affect the right of the Corporation to adjust, reclassify, reorganize or otherwise change its capital or business structure or to merge, consolidate, dissolve, liquidate or sell or transfer all or any part of its business or assets.

## **V. CANCELLATION AND REGRANT OF OPTIONS**

The Plan Administrator shall have the authority to effect, from time to time, and with prior approval of the Corporation's stockholders and the consent of the affected option holders, the cancellation of any or all outstanding options under the Discretionary Option/Stock Appreciation Right Grant Program (including outstanding options incorporated from the Predecessor Plans) and to grant (i) in substitution new options or stock appreciation rights covering the same or a different number of shares of Common Stock but with an exercise price per share calculated based upon the Fair Market Value per share of Common Stock on the new grant date; (ii) stock issuances (including share right awards); (iii) cash; or (iv) other property.

## **ARTICLE THREE**

### **STOCK ISSUANCE PROGRAM**

#### **I. STOCK ISSUANCE TERMS**

Shares of Common Stock may be issued under the Stock Issuance Program through direct and immediate issuances without any intervening option grants. Each such stock issuance shall be evidenced by a Stock Issuance Agreement which complies with the terms specified below. Shares of Common Stock may also be issued under the Stock Issuance Program pursuant to share right awards which entitle the recipients to receive those shares upon the attainment of designated performance goals.

##### **A. PURCHASE PRICE.**

1. The purchase price per share shall be fixed by the Plan Administrator, but shall not be less than any legal limit required under state law.

2. Shares of Common Stock may be issued under the Stock Issuance Program for any of the following items of consideration which the Plan Administrator may deem appropriate in each individual instance:

(i) cash or check made payable to the Corporation for one hundred percent of the Fair Market Value of the shares of Common Stock to be purchased,

(ii) past services rendered to the Corporation (or any Parent or Subsidiary),

(iii) services to be rendered to the Corporation (or any Parent or Subsidiary) during the vesting period, or

(iv) any other form of legal consideration that may be acceptable to the Plan Administrator.

##### **B. VESTING PROVISIONS.**

1. Shares of Common Stock issued under the Stock Issuance Program may, in the discretion of the Plan Administrator, be fully and immediately vested upon issuance or may vest in one or more installments over the Participant's period of Service or upon attainment of specified performance objectives. The elements of the vesting schedule applicable to any unvested shares of Common Stock issued under the Stock Issuance Program shall be determined by the Plan Administrator and incorporated into the Stock Issuance Agreement. Shares of Common Stock may also be issued under the Stock Issuance Program pursuant to share right awards which entitle the recipients to receive those shares upon the attainment of designated performance goals or in one or more installments over the Participant's period of Service. Upon the attainment of such performance goals or Service period, fully vested shares of Common Stock shall be issued in satisfaction of those share right awards.

2. Any new, substituted or additional securities or other property (including money paid other than as a regular cash dividend) which the Participant may have the right to receive with respect to the Participant's unvested shares of Common Stock by reason of any stock dividend, stock split, recapitalization, combination of shares, exchange of shares or other change affecting the outstanding Common Stock as a class without the Corporation's receipt of consideration shall be issued subject to (i) the same vesting requirements applicable to the Participant's unvested shares of Common Stock and (ii) such escrow arrangements as the Plan Administrator shall deem appropriate.

3. The Participant shall have full stockholder rights with respect to any shares of Common Stock issued to the Participant under the Stock Issuance Program, whether or not the Participant's interest in those shares is vested. Accordingly, the Participant shall have the right to vote such shares and to receive any regular cash dividends paid on such shares.

4. Should the Participant cease to remain in Service while holding one or more unvested shares of Common Stock issued under the Stock Issuance Program or should the performance objectives not be attained with respect to one or more such unvested shares of Common Stock, then those shares shall be immediately surrendered to the Corporation for cancellation, and the Participant shall have no further stockholder rights with respect to those shares. To the extent the surrendered shares were previously issued to the Participant for consideration paid in cash or cash equivalent (including the Participant's purchase-money indebtedness), the Corporation shall repay to the Participant the *lower* of (i) the cash consideration paid for the surrendered shares or (ii) the Fair Market Value of those shares at the time of cancellation.

5. The Plan Administrator may in its discretion waive the surrender and cancellation of one or more unvested shares of Common Stock which would otherwise occur upon the cessation of the Participant's Service or the non-attainment of the performance objectives applicable to those shares. Such waiver shall result in the immediate vesting of the Participant's interest in the shares of Common Stock as to which the waiver applies. Such waiver may be effected at any time, whether before or after the Participant's cessation of Service or the attainment or non-attainment of the applicable performance objectives.

6. Outstanding share right awards under the Stock Issuance Program shall automatically terminate, and no shares of Common Stock shall actually be issued in satisfaction of those awards, if the performance goals or Service requirements established for such awards are not attained. The Plan Administrator, however, shall have the discretionary authority to issue shares of Common Stock under one or more outstanding share right awards as to which the designated performance goals or Service requirements have not been attained.

## **II. CHANGE IN CONTROL/HOSTILE TAKE-OVER**

A. Except as otherwise provided in this Section II, none of the outstanding repurchase rights under the Stock Issuance Program shall terminate on an accelerated basis upon the occurrence of a Change in Control, and those rights shall be assignable to any successor corporation in the Change in Control. Except as otherwise provided in this Section II, none of the outstanding share right awards under the Stock Issuance Program shall vest in whole or in part on an accelerated basis upon the occurrence of a Change in Control, and those share right awards may be assumed, continued or substituted for by any successor corporation in the Change in Control.

B. To the extent that the outstanding repurchase rights under the Stock Issuance Program are not assigned to any successor corporation in the Change in Control and are not continued by the Corporation, such outstanding repurchase rights under the Stock Issuance Program shall terminate immediately prior to and contingent upon the occurrence of the Change in Control.

C. Unless a share right award is assumed or substituted for by the successor corporation (or parent thereof) or otherwise continued in full force and effect pursuant to the terms of the Change in Control transaction, if a Change in Control occurs while the Participant remains in Service, the shares of Common Stock at the time subject to each a share right award held by such Participant but not otherwise vested shall automatically accelerate so that each such Participant shall, immediately prior to the effective date of the Change in Control, vest for all the shares of Common Stock at the time subject to such share right award and such fully vested shares of Common Stock shall be delivered to the Participant immediately prior to and contingent upon the Change in Control. The Corporation shall provide each holder of a share right award that is accelerated in accordance with this paragraph at least five (5) business days notice of the vesting acceleration. Immediately following the consummation of the Change in Control, each option or stock appreciation right shall terminate and cease to be outstanding, except to the extent assumed or substituted for by the successor corporation (or parent thereof) or otherwise continued in full force and effect pursuant to the express terms of the Change in Control transaction.

D. To the extent a share right award is not assumed, continued or substituted for by the successor corporation (or parent thereof) or otherwise continued in full force and effect pursuant to the terms of the Change in Control transaction, then such share right award shall become fully vested and shares of Common Stock deliverable under the share right award shall be delivered immediately prior to and contingent upon the Change in Control. The Corporation shall provide each holder of a share right award that is accelerated in accordance with this paragraph at least five (5) business days notice of the vesting acceleration.

E. Immediately following the consummation of the Change in Control, all outstanding share right awards under the Stock Issuance Program shall terminate and cease to be outstanding, except to the extent assumed, continued or substituted for by the successor corporation (or parent thereof) or otherwise continued in full force and effect pursuant to the terms of the Change in Control transaction.

F. All of the Corporation's outstanding repurchase rights under the Stock Issuance Program shall terminate automatically, and all the shares of Common Stock subject to those terminated rights shall immediately vest in full, in the event of any Hostile Take-Over, except to the extent such accelerated vesting is precluded by other limitations imposed in the Stock Issuance Agreement. All the shares of Common Stock subject to outstanding share right awards shall immediately vest in full, in the event of any Hostile Take-Over, except to the extent such accelerated vesting is precluded by other limitations imposed in the Share Right Award Agreement.

G. The Plan Administrator may, in its discretion, structure one or more of the Corporation's repurchase rights so that those rights shall immediately terminate, in whole or in part, with respect to any shares held by the Participant (and the shares subject to those terminated repurchase rights shall accordingly vest in full) either (i) immediately prior to the effective date of that Change in Control or Hostile Takeover, or (ii) upon an event occurring after the Change in Control or Hostile Takeover (including a termination of a Participant's Service). In addition, the Plan Administrator shall have the discretionary authority to structure one or more share right awards grants under the Stock Issuance Program so that the vesting of each share right shall automatically accelerate in whole or in part, either (i) immediately prior to the effective date of that Change in Control or Hostile Takeover, or (ii) upon an event occurring after the Change in Control or Hostile Takeover (including a termination of employment).

H. Each share right award which is assumed or substituted for in connection with a Change in Control or otherwise continued in effect shall be appropriately adjusted, immediately after such Change in Control, to convert the number and class of securities which would have been issuable to the Participant in consummation of such Change in Control had the shares of Common Stock subject to the share right award been issued immediately prior to such Change in Control to the type and amount of consideration received by the holders of Common Stock in the Change in Control.

To the extent the actual holders of the Corporation's outstanding Common Stock receive cash consideration for their Common Stock in consummation of the Change in Control, the successor corporation may, in connection with the assumption or substitution of the outstanding share right awards under the Stock Issuance Program, substitute one or more shares of its own common stock or that of any parent or publicly traded Subsidiary, with a fair market value equivalent to the cash consideration paid per share of Common Stock in such Change in Control transaction.

### **III. SHARE ESCROW/LEGENDS**

Unvested shares may, in the Plan Administrator's discretion, be held in escrow by the Corporation until the Participant's interest in such shares vests or may be issued directly to the Participant with restrictive legends on the certificates evidencing those unvested shares.

## **ARTICLE FOUR**

### **AUTOMATIC OPTION GRANT PROGRAM**

#### **I. OPTION TERMS**

A. GRANT DATES. Option grants shall be made on the dates specified below:

1. Each individual who is first elected or appointed as a non-employee Board member at any time on or after the Plan Effective Date shall automatically be granted, on the date of such initial election or appointment, a Non-Statutory Option to purchase 2,000 shares of Common Stock, provided that individual has not previously been in the employ of the Corporation or any Parent or Subsidiary.

2. On the first business day in each calendar year following the Plan Effective Date and during the term of the Plan, each non-employee Board member then in office, shall automatically be granted a Non-Statutory Option to purchase 2,000 shares of Common Stock, provided such individual has served as a non-employee Board member for at least six (6) months. There shall be no limit on the number of such option grants any one non-employee Board member may receive over his or her period of Service on the Board, and non-employee Board members who have previously been in the employ of the Corporation (or any Parent or Subsidiary) or who joined the Board prior to the Plan Effective Date shall be eligible to receive one or more such annual option grants over their period of continued Board Service.

B. EXERCISE PRICE.

1. The exercise price per share shall be equal to one hundred percent (100%) of the Fair Market Value per share of Common Stock on the option grant date.

2. The exercise price shall be payable in one or more of the alternative forms authorized under the Discretionary Option Grant Program. Except to the extent the sale and remittance procedure specified thereunder is utilized, payment of the exercise price for the purchased shares must be made on the Exercise Date.

C. OPTION TERM. Each option shall have a maximum term of ten (10) years measured from the option grant date.

D. EXERCISE AND VESTING OF OPTIONS.

Each option granted pursuant to this Automatic Option Grant Program shall become exercisable in a series of four (4) equal annual installments upon the Optionee's completion of each twelve (12) months of continuous Service as a Board member over the 48-month period measured from the option grant date.

E. LIMITED TRANSFERABILITY OF OPTIONS. Each option under this Article Four may be assigned in whole or in part during the Optionee's lifetime to one or more members of the Optionee's Immediate Family or to a trust established exclusively for the Optionee or one or more Members of the Optionee's Immediate Family or to Optionee's former spouse, to the extent such assignment is in connection with the Optionee's estate plan or pursuant to domestic relations order. The assigned portion may only be exercised by the person or persons who acquire a proprietary interest in the option pursuant to the assignment. The terms applicable to the assigned portion shall be the same as those in effect for the option immediately prior to such assignment and shall be set forth in such documents issued to the assignee as the Plan Administrator may deem appropriate. The Optionee may also designate one or more persons as the beneficiary or beneficiaries of his or her outstanding options under this Article Four, and those options shall, in accordance with such designation, automatically be transferred to such beneficiary or beneficiaries upon the Optionee's death while holding those options. Such beneficiary or beneficiaries shall take the transferred options subject to all the terms and conditions of the applicable agreement evidencing each such transferred option, including (without limitation) the limited time period during which the option may be exercised following the Optionee's death.

F. TERMINATION OF BOARD SERVICE. The following provisions shall govern the exercise of any options held by the Optionee at the time the Optionee ceases to serve as a Board member for any reason:

(i) The Optionee (or, in the event of Optionee's death, the personal representative of the Optionee's estate or the person or persons to whom the option is transferred pursuant to the Optionee's will or the laws of descent and distribution or the designated beneficiary or beneficiaries of such option) shall have a six (6)-month period following the date of such cessation of Board Service in which to exercise each such option.

(ii) During the six (6)-month post-Service exercise period, the option may not be exercised in the aggregate for more than the number of vested shares of Common Stock for which the option is exercisable at the time of the Optionee's cessation of Board Service.

(iii) In no event shall the option remain exercisable after the expiration of the option term. Upon the expiration of the six (6)-month post-Service exercise period or (if earlier) upon the expiration of the option term, the option shall terminate and cease to be outstanding for any shares for which the option has not been exercised. However, the option shall, immediately upon the Optionee's cessation of Board Service for any reason, terminate and cease to be outstanding to the extent the option is not otherwise at that time exercisable.

## II. CHANGE IN CONTROL/ HOSTILE TAKE-OVER

A. In the event of any Change in Control while the Optionee remains a Board member, the shares of Common Stock at the time subject to each outstanding option held by such Optionee under the Automatic Option Grant Program but not otherwise vested shall automatically accelerate so that each such option shall, immediately prior to the effective date of the Change in Control, vest and become exercisable for all the shares of Common Stock at the time subject to such option and may be exercised for any or all of those shares as fully vested shares of Common Stock. Immediately following the consummation of the Change in Control, each automatic option grant shall terminate and cease to be outstanding, except to the extent assumed by the successor corporation (or parent thereof) or otherwise continued in full force and effect pursuant to the express terms of the Change in Control transaction.

B. In the event of a Hostile Take-Over while the Optionee remains a Board member, the shares of Common Stock at the time subject to each option outstanding under the Automatic Option Grant Program but not otherwise vested shall automatically accelerate so that each such option shall, immediately prior to the effective date of the Hostile Take-Over, vest and become exercisable for all the shares of Common Stock at the time subject to such option and may be exercised for any or all of those shares as fully vested shares of Common Stock. Each such option shall remain exercisable for such fully-vested option shares until the expiration or sooner termination of the option term or the surrender of the option in connection with that Hostile Take-Over.

C. All outstanding repurchase rights under the Automatic Option Grant Program shall automatically terminate, and the shares of Common Stock subject to those terminated rights shall immediately vest in full, in the event of any Change in Control or Hostile Take-Over.

D. Upon the occurrence of a Hostile Take-Over, the Optionee shall have a thirty (30)-day period in which to surrender to the Corporation each of his or her outstanding automatic option grants. The Optionee shall in return be entitled to a cash payment from the Corporation in an amount equal to the excess of (i) the Take-Over Price of the shares of Common Stock at the time subject to each surrendered option (whether or not the Optionee is otherwise at the time vested in those shares) over (ii) the aggregate exercise price payable for such shares. Such cash payment shall be paid within five (5) days following the surrender of the option to the Corporation. The Plan Administrator shall, at the time the option with such limited stock appreciation right is granted under the Automatic Option Grant Program, pre-approve any subsequent exercise of that right in accordance with the terms of this Paragraph D. Accordingly, no further approval of the Plan Administrator or the Board shall be required at the time of the actual option surrender and cash payment.

E. Each option which is assumed in connection with a Change in Control or otherwise continued in full force and effect shall be appropriately adjusted, immediately after such Change in Control, to apply to the number and class of securities which would have been issuable to the Optionee in consummation of such Change in Control had the option been exercised immediately prior to such Change in Control. Appropriate adjustments shall also be made to the exercise price payable per share under each outstanding option, provided the aggregate exercise price payable for such securities shall remain the same. To the extent the actual holders of the Corporation's outstanding Common Stock receive cash consideration for their Common Stock in consummation of the Change in Control transaction, the successor corporation may, in connection with the assumption of the outstanding options under the Automatic Option Grant Program, substitute one or more shares of its own common stock with a fair market value equivalent to the cash consideration paid per share of Common Stock in such Change in Control transaction.

F. The grant of options under the Automatic Option Grant Program shall in no way affect the right of the Corporation to adjust, reclassify, reorganize or otherwise change its capital or business structure or to merge, consolidate, dissolve, liquidate or sell or transfer all or any part of its business or assets.

### **III. REMAINING TERMS**

The remaining terms of each option granted under the Automatic Option Grant Program shall be the same as the terms in effect for option grants made under the Discretionary Option Grant Program.

## **ARTICLE FIVE**

### **MISCELLANEOUS**

#### **I. NO FRACTIONAL SHARES**

No fractional shares of Common Stock shall be issued or delivered pursuant to the Plan, and the Plan Administrator shall determine whether cash shall be paid in lieu of any fractional shares or whether such fractional shares or any rights thereto shall be canceled, terminated or otherwise eliminated.

## II. TAX WITHHOLDING

A. The Corporation's obligation to deliver shares of Common Stock upon a stock issuance, or the exercise of options or stock appreciation rights or the issuance or vesting of such shares under the Plan shall be subject to the satisfaction of all applicable income and employment tax withholding requirements. The Corporation shall also make appropriate arrangements to satisfy all applicable foreign tax withholding requirements which may be imposed in connection with the grant or exercise of options or stock appreciation rights under the Plan or the issuance or vesting of shares of Common Stock under the Plan.

B. The Plan Administrator may, in its discretion, provide in the respective award agreement that (i) the Corporation, in its discretion, may determine that shares of Common Stock from the award be withheld by the Corporation in satisfaction of all or part of the Withholding Taxes which may become payable in connection with the an award granted under the Plan (pursuant to Article Five Section II.B.1.) and (ii) any or all Optionees or Participants under the Plan (other than the non-employee Board members) with the right to use shares of Common Stock in satisfaction of all or part of the Withholding Taxes to which such individuals may become subject in connection with the grant or exercise of their options or stock appreciation rights or the issuance or vesting of their shares. Such right to an individual may be provided to any such holder in either or both of the following formats:

1. *Stock Withholding:* The election to have the Corporation withhold, from the shares of Common Stock otherwise issuable upon the exercise of options or stock appreciation rights or the issuance or the vesting of such shares, a portion of those shares with an aggregate Fair Market Value equal to the percentage of the Withholding Taxes (not to exceed one hundred percent (100%) of the minimum Withholding Taxes required be law) designated by the holder.

2. *Stock Delivery:* The election to deliver to the Corporation, at the time the option or stock appreciation right is granted or exercised or the shares are issued or vest, one or more shares of Common Stock previously acquired by such holder (other than in connection with the option or stock appreciation right exercise or share vesting triggering the Withholding Taxes) with an aggregate Fair Market Value equal to the percentage of the Withholding Taxes (not to exceed one hundred percent (100%) of the minimum Withholding Taxes required be law) designated by the holder.

## III. EFFECTIVE DATE AND TERM OF THE PLAN

A. The Plan shall become effective immediately upon the Plan Effective Date. Options may be granted under the Discretionary Option/Stock Appreciation Right Grant Program at any time on or after the Plan Effective Date, and the initial option grants under the Automatic Option Grant Program shall be made on the Plan Effective Date to any non-employee Board members eligible for such grants at that time. However, no options granted under the Plan may be exercised, and no shares shall be issued under the Plan, until the Plan is approved by the Corporation's stockholders. If such stockholder approval is not obtained within twelve (12) months after the Plan Effective Date, then all options previously granted under this Plan shall terminate and cease to be outstanding, and no further options shall be granted and no shares shall be issued under the Plan.

B. The Plan shall terminate upon the earliest of (i) the tenth anniversary of the Plan Effective Date, (ii) the tenth anniversary of the approval of the Plan by the Corporation's stockholders, (iii) the date on which all shares available for issuance under the Plan shall have been issued as fully-vested shares or (iv) the termination of all outstanding awards in connection with a Change in Control. Upon such Plan termination, all option grants and unvested stock issuances outstanding at that time shall thereafter continue to have force and effect in accordance with the provisions of the documents evidencing such grants or issuances.

#### **IV. AMENDMENT OF THE PLAN**

A. The Board shall have complete and exclusive power and authority to amend or modify the Plan or any outstanding award granted under the Plan in any or all respects. However, no such amendment or modification shall adversely affect the rights and obligations with respect to stock options, stock appreciation rights or unvested stock issuances at the time outstanding, including share right awards, under the Plan unless the Optionee or the Participant consents to such amendment or modification. Notwithstanding the foregoing, any amendment to either increase the number of shares that may be issued under the Plan or the Persons eligible to receive awards under the Plan shall require stockholder approval. In addition, certain amendments may require stockholder approval pursuant to applicable laws or regulations.

B. Options to purchase shares of Common Stock may be granted under the Discretionary Option/Stock Appreciation Right Grant Program and shares of Common Stock may be issued under the Stock Issuance Program that are in each instance in excess of the number of shares then available for issuance under the Plan, provided any excess shares actually issued under those programs shall be held in escrow until there is obtained stockholder approval of an amendment sufficiently increasing the number of shares of Common Stock available for issuance under the Plan. If such stockholder approval is not obtained within twelve (12) months after the date the first such excess issuances are made, then (i) any unexercised options granted on the basis of such excess shares shall terminate and cease to be outstanding and (ii) the Corporation shall promptly refund to the Optionees and the Participants the exercise or purchase price paid for any excess shares issued under the Plan and held in escrow, together with interest (at the short term applicable federal rate) for the period the shares were held in escrow, and such shares shall thereupon be automatically cancelled and cease to be outstanding.

#### **V. USE OF PROCEEDS**

Any cash proceeds received by the Corporation from the sale of shares of Common Stock under the Plan shall be used for general corporate purposes.

#### **VI. REGULATORY APPROVALS**

A. The implementation of the Plan, the granting of any stock option under the Plan and the issuance of any shares of Common Stock (i) upon the exercise of any granted option or (ii) under the Stock Issuance Program shall be subject to the Corporation's procurement of all approvals and permits required by regulatory authorities having jurisdiction over the Plan, the stock options granted under it and the shares of Common Stock issued pursuant to it.

B. No shares of Common Stock or other assets shall be issued or delivered under the Plan unless and until there shall have been compliance with all applicable requirements of Federal and state securities laws, including the filing and effectiveness of the Form S-8 registration statement for the shares of Common Stock issuable under the Plan, and all applicable listing requirements of any stock exchange (or the Nasdaq National Market, if applicable) on which Common Stock is then listed for trading.

#### **VII. NO EMPLOYMENT/SERVICE RIGHTS**

Nothing in the Plan shall confer upon any Optionee or Participant any right to continue in Service for any period of specific duration or interfere with or otherwise restrict in any way the rights of the Corporation (or any Parent or Subsidiary employing or retaining such person) or of any Optionee or Participant, which rights are hereby expressly reserved by each, to terminate such person's Service at any time for any reason, with or without cause.

**VIII. SECTION 162(M)**

**A. STOCK OPTIONS AND STOCK APPRECIATION RIGHTS.**

It is the intent of the Corporation that any options or stock appreciation rights granted under the Plan to a "covered employee" (as that term is defined in Section 162(m) of the Code) with an exercise price of not less than the Fair Market Value per share of Common Stock on the date of grant shall qualify as "qualified performance-based compensation" (within the meaning of Treas. Reg. § 1.162-27(e)) to the extent that options or stock appreciation rights granted under the Plan may qualify as "qualified performance-based compensation" and the Plan shall be interpreted consistently with such intent. In furtherance of the foregoing, if and to the extent that the Corporation intends that an option or a stock appreciation right granted under the Plan to any covered employee shall qualify as qualified performance-based compensation, all decisions regarding the grant of such option or stock appreciation right shall be made only by members of the Committee who qualify as "outside directors" within the meaning of Treas. Reg. § 1.162-27(e)(3).

**B. PERFORMANCE AWARDS.**

The Plan Administrator shall also have the discretionary authority, consistent with Code Section 162(m), to structure (i) cash bonuses, (ii) stock options, (iii) stock appreciation rights and (iv) stock issuances, including share right awards, so that (x) the cash bonuses are only payable, (y) the shares of Common Stock received upon exercise of the stock option or stock appreciation right and (z) the shares of Common Stock subject to such stock issuances shall only vest or be issuable upon the achievement of certain pre-established objective corporate performance goals based on one or more of the following criteria: (1) earnings per share; (2) revenues or margins; (3) cash flow; (4) operating margin; (5) return on net assets, investment, capital, or equity; (6) direct contribution; (7) net income; pretax earnings; (8) earnings before interest and taxes; earnings before interest, taxes, depreciation and amortization; earnings after interest expense and before extraordinary or special items; operating income; income before interest income or expense, unusual items and income taxes, local, state or federal and excluding budgeted and actual bonuses which might be paid under any ongoing bonus plans of the Company; (9) working capital; (10) management of fixed costs or variable costs; (11) identification or consummation of investment opportunities or completion of specified projects in accordance with corporate business plans, including strategic mergers, acquisitions or divestitures; (12) total shareholder return; and (13) debt reduction. In addition, such performance goals may be based upon the attainment of specified levels of the Corporation's performance under one or more of the measures described above relative to the performance of other entities and may also be based on the performance of any of the Corporation's business units or divisions or any Parent or Subsidiary. Performance goals may include a minimum threshold level of performance below which no award will be earned, levels of performance at which specified portions of an award will be earned and a maximum level of performance at which an award will be fully earned. In furtherance of the foregoing, if and to the extent that the Corporation intends that an award granted under the Plan pursuant to this paragraph to any covered employee shall qualify as qualified performance-based compensation, all decisions regarding the grant of such award shall be made only by members of the Committee who qualify as "outside directors" within the meaning of Treas. Reg. § 1.162-27(e)(3).

## APPENDIX

The following definitions shall be in effect under the Plan:

A. ASSUMED OPTIONS shall mean the stock options assumed by the Corporation from Acacia Research that were exercisable for Acacia Research—CombiMatrix stock and which include, but are not limited to, the options outstanding as of the date of the Transaction that were granted under the Acacia Research Corporation 2002 CombiMatrix Stock Incentive Plan, the CombiMatrix Corporation 1998 Stock Option Plan, the CombiMatrix Corporation 2000 Stock Awards Plan and the Acacia Research Corporation 1996 Stock Option Plan.

B. AUTOMATIC OPTION GRANT PROGRAM shall mean the automatic option grant program in effect under Article Four of the Plan.

C. BOARD shall mean the Corporation's Board of Directors.

D. CERTIFICATE OF INCORPORATION shall mean the Certificate of Incorporation of CombiMatrix Corporation filed with the Delaware Secretary of State on the Plan Effective Date and all subsequent amendments, supplements, modifications and replacements thereof.

E. CHANGE IN CONTROL shall mean a change in ownership or control of the Corporation effected through any of the following transactions:

(i) a stockholder-approved merger or consolidation in which securities possessing more than fifty percent (50%) of the total combined voting power of the Corporation's outstanding securities are transferred to a person or persons different from the persons holding those securities immediately prior to such transaction, or

(ii) a sale, transfer or other disposition of all or substantially all of the Corporation's assets to an entity which is not a Subsidiary of the Corporation, or

(iii) the acquisition, directly or indirectly by any person or related group of persons (other than the Corporation or a person that directly or indirectly controls, is controlled by, or is under common control with, the Corporation), of beneficial ownership (within the meaning of Rule 13d-3 of the 1934 Act) of securities possessing more than fifty percent (50%) of the total combined voting power of the Corporation's outstanding securities pursuant to a tender or exchange offer made directly to the Corporation's stockholders.

F. CODE shall mean the Internal Revenue Code of 1986, as amended.

G. COMMITTEE shall mean the committee of two (2) or more non-employee Board members appointed by the Board to administer the Discretionary Option/Stock Appreciation Right Grant Program with respect to Section 16 Insiders.

H. COMMON STOCK shall mean the Corporation's Common Stock (as defined in the Certificate of Incorporation).

I. CORPORATION shall mean CombiMatrix Corporation, a Delaware corporation, and any corporate successor to all or substantially all of the assets or voting stock of CombiMatrix Corporation, which shall by appropriate action adopt the Plan.

J. DISCRETIONARY OPTION/STOCK APPRECIATION RIGHT GRANT PROGRAM shall mean the Discretionary Option/Stock Appreciation Right Grant Program in effect under Article Two of the Plan.

K. EMPLOYEE shall mean an individual who is in the employ of the Corporation (or any Parent or Subsidiary), subject to the control and direction of the employer entity as to both the work to be performed and the manner and method of performance.

L. EXECUTIVE OFFICER COMMITTEE shall mean the committee comprised of two (2) or more executive officers of the Corporation appointed by the Board to administer the Discretionary Option/Stock Appreciation Right Grant Program and Stock Issuance Program with respect to persons other than Section 16 Insiders, but subject to the applicable limitations and requirements of the Delaware Corporate Law.

M. EXERCISE DATE shall mean the date on which the Corporation shall have received written notice of the option exercise.

N. FAIR MARKET VALUE per share of Common Stock on any relevant date shall be determined in accordance with the following provisions:

(i) If the Common Stock is at the time traded on the Nasdaq National Market, then the Fair Market Value shall be the closing selling price per share of Common Stock on the date in question, as such price is reported on the Nasdaq National Market. If there is no closing selling price for the Common Stock on the date in question, then the Fair Market Value shall be the closing selling price on the last preceding date for which such quotation exists.

(ii) If the Common Stock is at the time listed on any Stock Exchange, then the Fair Market Value shall be the closing selling price per share of Common Stock on the date in question on the Stock Exchange determined by the Plan Administrator to be the primary market for the Common Stock, as such price is officially quoted in the composite tape of transactions on such exchange. If there is no closing selling price for the Common Stock on the date in question, then the Fair Market Value shall be the closing selling price on the last preceding date for which such quotation exists.

(iii) If the Common Stock is at the time not traded on the Nasdaq National Market or listed on any Stock Exchange, but is regularly traded in any over-the-counter market, then the Fair Market Value shall be the average of the bid and asked prices per share of Common Stock in such over-the-counter market on the date in question. If there are no bid and asked prices on the date in question, then the Fair Market Value shall be the average of the bid and asked prices in such over-the-counter market on the last preceding date for which such prices exist.

(iv) If the Common Stock is at the time not traded as described in (i), (ii) or (iii) above, then the Fair Market Value of a share of Common Stock shall be determined by the Plan Administrator, after taking into account such factors as it deems appropriate.

O. HOSTILE TAKE-OVER shall mean either of the following events effecting a change in control or ownership of the Corporation:

(i) the acquisition, directly or indirectly, by any person or related group of persons (other than the Corporation or a person that directly or indirectly controls, is controlled by, or is under common control with, the Corporation) of beneficial ownership (within the meaning of Rule 13d-3 of the 1934 Act) of securities possessing more than fifty percent (50%) of the total combined voting power of the Corporation's outstanding securities pursuant to a tender or exchange offer made directly to the Corporation's stockholders which the Board does not recommend such stockholders to accept, or

(ii) a change in the composition of the Board over a period of thirty-six (36) consecutive months or less such that a majority of the Board members ceases, by reason of one or more contested elections for Board membership, to be comprised of individuals who either (A) have been Board members continuously since the beginning of such period or (B) have been elected or nominated for election as Board members during such period by at least a majority of the Board members described in clause (A) who were still in office at the time the Board approved such election or nomination.

P. IMMEDIATE FAMILY shall mean any child, stepchild, grandchild, parent, stepparent, grandparent, spouse, sibling, mother-in-law, father-in-law, son-in-law, daughter-in-law, brother-in-law, or sister-in-law and shall include adoptive relationships.

Q. INCENTIVE OPTION shall mean an option which satisfies the requirements of Code Section 422.

R. MISCONDUCT shall, with respect to any Participant, have the meaning specified in the Participant's award agreement. In the absence of any definition in the award agreement, "Misconduct" shall have the equivalent meaning or the same meaning as "misconduct" or "cause" set forth in any employment, consulting or other agreement for the performance of services between the Participant and the Corporation or, in the absence of any such agreement or any such definition in such agreement, such term shall mean the commission of any act of fraud, embezzlement or dishonesty by the Optionee or Participant, any unauthorized use or disclosure by such person of confidential information or trade secrets of the Corporation (or any Parent or Subsidiary), or any other intentional misconduct by such person adversely affecting the business or affairs of the Corporation (or any Parent or Subsidiary) in a material manner. The foregoing definition shall not be deemed to be inclusive of all the acts or omissions which the Corporation (or any Parent or Subsidiary) may consider as grounds for the dismissal or discharge of any Optionee, Participant or other person in the Service of the Corporation (or any Parent or Subsidiary).

S. 1934 ACT shall mean the Securities Exchange Act of 1934, as amended.

T. NON-STATUTORY OPTION shall mean an option not intended to satisfy the requirements of Code Section 422.

U. OPTIONEE shall mean any person to whom an option is granted under the Discretionary Option Grant Program, the Automatic Option Grant Program.

V. PARENT shall mean any corporation (other than the Corporation) in an unbroken chain of corporations ending with the Corporation, provided each corporation in the unbroken chain (other than the Corporation) owns, at the time of the determination, stock possessing fifty percent (50%) or more of the total combined voting power of all classes of stock in one of the other corporations in such chain.

W. PARTICIPANT shall mean any person who is issued shares of Common Stock under the Stock Issuance Program.

X. PERMANENT DISABILITY OR PERMANENTLY DISABLED shall mean the inability of the Optionee or the Participant to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or to be of continuous duration of twelve (12) months or more. However, solely for purposes of the Automatic Option Grant Program, Permanent Disability or Permanently Disabled shall mean the inability of the non-employee Board member to perform his or her usual duties as a Board member by reason of any medically determinable physical or mental impairment expected to result in death or to be of continuous duration of twelve (12) months or more.

Y. PLAN shall mean the Corporation's 2006 Stock Incentive Plan, as amended and as set forth in this document.

Z. PLAN ADMINISTRATOR shall mean the particular body, whether the Committee or the Board, which is authorized to administer the Discretionary Option Grant and Stock Issuance Programs with respect to one or more classes of eligible persons, to the extent such entity is carrying out its administrative functions under those programs with respect to the persons under its jurisdiction.

AA. PLAN EFFECTIVE DATE shall mean the date on which the Plan is approved by the stockholders of the Corporation.

BB. SECTION 16 INSIDER shall mean an officer or director of the Corporation subject to the short-swing profit liabilities of Section 16 of the 1934 Act.

CC. SERVICE shall mean the performance of services for the Corporation (or any Parent or Subsidiary) by a person in the capacity of an Employee, a non-employee member of the board of directors or a consultant or independent advisor, except to the extent otherwise specifically provided in the documents evidencing the option grant or stock issuance.

DD. STOCK EXCHANGE shall mean either the, Nasdaq National Market, the American Stock Exchange or the New York Stock Exchange.

EE. STOCK ISSUANCE AGREEMENT shall mean the agreement entered into by the Corporation and the Participant at the time of issuance of shares of Common Stock under the Stock Issuance Program.

FF. STOCK ISSUANCE PROGRAM shall mean the stock issuance program in effect under Article Three of the Plan.

GG. SUBSIDIARY shall mean any corporation (other than the Corporation) in an unbroken chain of corporations beginning with the Corporation, provided each corporation (other than the last corporation) in the unbroken chain owns, at the time of the determination, stock possessing fifty percent (50%) or more of the total combined voting power of all classes of stock in one of the other corporations in such chain.

HH. TAKE-OVER PRICE shall mean the greater of (i) the Fair Market Value per share of Common Stock on the date the option is surrendered to the Corporation in connection with a Hostile Take-Over or, if applicable, (ii) the highest reported price per share of Common Stock paid by the tender offeror in effecting the Hostile Take-Over through the acquisition of such Common Stock. However, if the surrendered option is an Incentive Option, the Take-Over Price shall not exceed the price per share described in clause (i) above.

II. 10% STOCKHOLDER shall mean the owner of stock (as determined under Code Section 424(d)) possessing more than ten percent (10%) of the total combined voting power of all classes of stock of the Corporation (or any Parent or Subsidiary).

JJ. WITHHOLDING TAXES shall mean the minimum Federal, state and local income and employment withholding taxes to which the holder of options or unvested shares of Common Stock may become subject in connection with the exercise of those options or the vesting of those shares.



**IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE ANNUAL MEETING OF STOCKHOLDERS TO BE HELD ON JUNE 17, 2014:** THE NOTICE OF ANNUAL MEETING OF STOCKHOLDERS, THE PROXY STATEMENT AND THE COMPANY'S ANNUAL REPORT ON FORM 10-K ARE AVAILABLE AT [HTTP://INVESTOR.COMBIMATRIX.COM/ANNUALS.CFM](http://investor.combimatrix.com/annuals.cfm).

▼ IF YOU HAVE NOT VOTED VIA THE INTERNET OR TELEPHONE, FOLD ALONG THE PERFORATION, DETACH AND RETURN THE BOTTOM PORTION IN THE ENCLOSED ENVELOPE. ▼

---

**PROXY — COMBIMATRIX CORPORATION**



---

**Annual Meeting of Stockholders**

**June 17, 2014**

**This Proxy is Solicited on Behalf of the Board of Directors of CombiMatrix Corporation**

The undersigned revokes all previous proxies, acknowledges receipt of the Notice of the Annual Meeting of Stockholders and the accompanying Proxy Statement and appoints Mark McDonough and Scott Burell, and each of them, the proxies of the undersigned, with full power of substitution and revocation, to vote all shares of CombiMatrix Corporation common stock held of record by the undersigned on April 22, 2014, either on his or her own behalf or on behalf of any entity or entities, at the Annual Meeting of Stockholders of CombiMatrix Corporation (the "Company") to be held June 17, 2014, or at any postponements or adjournments thereof, with the same force and effect as the undersigned might or could do if personally present thereat. The shares represented by this Proxy shall be voted in the manner set forth on the reverse side.

**THIS PROXY, WHEN PROPERLY SIGNED, DATED AND RETURNED, WILL BE VOTED AS DIRECTED.**

**UNLESS OTHERWISE DIRECTED, THIS PROXY WILL BE VOTED "FOR" THE ELECTION OF EACH OF THE DIRECTOR NOMINEES IN PROPOSAL 1 AND "FOR" THE APPROVAL OF THE MATTERS IN PROPOSALS 2, 3 AND 4, AND AT THE DISCRETION OF YOUR PROXY ON ANY OTHER MATTER THAT MAY BE PROPERLY BROUGHT BEFORE THE ANNUAL MEETING.**

**PLEASE DATE, SIGN AND MAIL YOUR PROXY CARD IN THE ENVELOPE PROVIDED AS SOON AS POSSIBLE.**

(Continued and to be marked, dated and signed, on the other side.)

**C Non-Voting Items**

**Change of Address** — Please print new address below.

**Comments** — Please print your comments below.



**IF VOTING BY MAIL, YOU MUST COMPLETE SECTIONS A - C ON BOTH SIDES OF THIS CARD.**

