CANCER GENETICS, INC
Form 10-Q
November 13, 2013
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2013

Or

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

For the transition period from _____ to _____

Commission file number 001-35817

CANCER GENETICS, INC.

(Exact name of registrant as specified in its charter)

Delaware	**04-3462475**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

201 Route 17 North 2nd Floor

Rutherford, NJ 07070

(201) 528-9200

(Address, including zip code, and telephone number, including area code, of registrant s principal executive offices)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer ¨	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company x

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

As of November 1, 2013, there were 9,265,384 shares of common stock, par value $0.0001 of Cancer Genetics, Inc. outstanding.

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CANCER GENETICS, INC. AND SUBSIDIARIES

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)
Cancer Genetics, Inc. and Subsidiary

Consolidated Balance Sheets

	September 30, 2013 (Unaudited)	December 31, 2012
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	**$ 9,878,176**	$ 819,906
Accounts receivable, net of allowance for doubtful accounts of $36,000	**1,616,134**	850,545
Other current assets	**713,127**	489,278
Total current assets	**12,207,437**	2,159,729
FIXED ASSETS, net of accumulated depreciation	**810,387**	964,923
OTHER ASSETS		
Security deposits	**1,564**	1,564
Restricted cash	**300,000**	250,000
Loan guarantee and financing fees, net of accumulated amortization of 2013 $207,000; 2012 $929,498	**621,000**	1,907,502
Patents	**366,113**	324,764
Deferred offering costs		3,343,289
	1,288,677	5,827,119
Total Assets	**$ 14,306,501**	$ 8,951,771
LIABILITIES AND STOCKHOLDERS EQUITY (DEFICIT)		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	**$ 1,807,081**	$ 4,578,761
Obligations under capital leases, current portion	**11,886**	17,158
Deferred revenue	**215,023**	468,010
Notes payable, current portion	**43,622**	3,836,567
Lines of credit	**6,000,000**	2,871,200
Total current liabilities	**8,077,612**	11,771,696
Obligations under capital leases		7,490
Deferred rent payable	**169,166**	164,298
Notes payable, long-term		2,440,683
Lines of credit		6,000,000
Warrant liability	**1,178,000**	12,549,000
Total liabilities	**9,424,778**	32,933,167
STOCKHOLDERS EQUITY (DEFICIT)		
Series A Preferred Stock, authorized 588,000 shares $0.0001 par value (converted to common stock on April 10, 2013-Note 4), 587,691 shares issued and outstanding in 2012		59
		182

Series B Preferred Stock, authorized 2,000,000 shares $0.0001 par value (converted to common stock on April 10, 2013-Note 4), 1,821,600 shares issued and outstanding in 2012		
Common stock, authorized 100,000,000 and 24,000,000 shares, respectively, $0.0001 par value, 5,965,340 and 1,349,936 shares issued and outstanding as of September 30, 2013 and December 31, 2012, respectively	**597**	135
Additional paid-in capital	**63,681,317**	24,970,255
Treasury stock		(17,442)
Accumulated deficit	**(58,800,191)**	(48,934,585)
Total Stockholders Equity (Deficit)	**4,881,723**	(23,981,396)
Total Liabilities and Stockholders Equity (Deficit)	**$ 14,306,501**	$ 8,951,771

See Notes to Unaudited Consolidated Financial Statements.

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Cancer Genetics, Inc. and Subsidiary

Consolidated Statements of Operations

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	**2013**	2012
Revenue	**$ 1,705,146**	$ 1,242,604	**$ 4,755,462**	$ 3,225,831
Cost of revenues	**1,211,384**	971,557	**3,560,678**	2,880,242
Gross profit	**493,762**	271,047	**1,194,784**	345,589
Operating expenses:				
Research and development	**433,525**	501,431	**1,384,122**	1,551,672
Sales and marketing	**442,665**	334,147	**1,274,620**	1,049,996
General and administrative	**1,297,801**	1,145,649	**4,259,175**	3,475,301
Total operating expenses	**2,173,991**	1,981,227	**6,917,917**	6,076,969
Loss from operations	**(1,680,229)**	(1,710,180)	**(5,723,133)**	(5,731,380)
Other (expense) income:				
Interest expense	**(356,442)**	(1,312,232)	**(2,039,750)**	(3,260,010)
Interest income	**3,295**		**4,649**	
Debt conversion costs			**(6,849,830)**	
Change in fair value of warrant liability	**(1,033,000)**	3,334,000	**4,096,000**	6,370,000
Total other (expense) income	**(1,386,147)**	2,021,768	**(4,788,931)**	3,109,990
(Loss) income before income taxes	**(3,066,376)**	311,588	**(10,512,064)**	(2,621,390)
Income tax provision (benefit)			**(663,900)**	
Net (loss) income	**$ (3,066,376)**	$ 311,588	**$ (9,848,164)**	$ (2,621,390)
Basic net (loss) income per share	**$ (0.61)**	$ 0.23	**$ (2.84)**	$ (1.96)
Diluted net loss per share	**$ (0.61)**	$ (2.23)	**$ (4.02)**	$ (6.66)
Basic Weighted Average Shares Outstanding	**5,055,591**	1,346,124	**3,463,730**	1,340,530
Diluted Weighted Average Shares Outstanding	**5,055,591**	1,355,678	**3,468,627**	1,350,084

See Notes to Unaudited Consolidated Financial Statements.

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Consolidated Statements of Changes in Stockholders Equity (Deficit)

For the nine months ended September 30, 2013 (Unaudited)

	Preferred Stock Series A		Preferred Stock Series B		Common Stock		Additional	Treasury	Accumulated	
	Shares	Amount	Shares	Amount	Shares	Amount	Paid-in Capital	Stock	Deficit	Total
Balance, December 31, 2012	587,691	$ 59	1,821,600	$ 182	1,349,936	$ 135	$ 24,970,255	$ (17,442)	$ (48,934,585)	$ (23,981,396)
Stock based compensation employees							310,982			310,982
Stock based compensation non-employees							76,220			76,220
Conversion of preferred stock into common stock	(587,691)	(59)	(1,821,600)	(182)	1,287,325	129	112			
Conversion of debt into common stock					963,430	96	12,595,970			12,596,066
Issuance of common stock in IPO, net of offering costs					690,000	69	3,742,574			3,742,643
Issuance of common stock in Secondary Offering, net of offering costs					1,605,000	161	14,230,211			14,230,372
Issuance of common stock pursuant to license agreement					2,000		20,000			20,000
Reclassification of derivative warrants							7,170,000			7,170,000
Exercise of warrants					67,649	7	564,993			565,000
Retirement of treasury stock								17,442	(17,442)	
Net loss									(9,848,164)	(9,848,164)
Balance, September 30, 2013		**$**		**$**	**5,965,340**	**$ 597**	**$ 63,681,317**	**$**	**$ (58,800,191)**	**$ 4,881,723**

See Notes to Unaudited Consolidated Financial Statements.

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Cancer Genetics, Inc. and Subsidiary

Consolidated Statements of Cash Flows

(Unaudited)

	Nine Months Ended September 30,	
	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Net (loss)	**$ (9,848,164)**	$ (2,621,390)
Adjustments to reconcile net (loss) to net cash used in operating activities:		
Depreciation	**227,376**	266,489
Amortization	**11,422**	11,422
Provision for bad debts		(528)
Equity-based consulting and compensation expenses	**310,982**	766,167
Equity-based research and development expenses	**96,220**	
Change in fair value of warrant liability	**(4,096,000)**	(6,370,000)
Extension of warrants		144,000
Amortization of loan guarantee and financing fees	**884,460**	952,544
Accretion of discount on debt	**584,692**	1,559,009
Deferred rent	**4,868**	6,364
Deferred initial public offering costs expensed	**617,706**	
Write-off of debt conversion costs	**6,849,830**	
Change in working capital components:		
Accounts receivable	**(765,589)**	(149,870)
Other current assets	**(223,849)**	(182,803)
Accounts payable, accrued expenses and deferred revenue	**(1,255,166)**	(144,773)
Net cash (used in) operating activities	**(6,601,212)**	(5,763,369)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of fixed assets	**(72,840)**	(33,540)
Patent costs	**(52,771)**	(184,456)
Increase in restricted cash	**(50,000)**	(50,000)
Net cash (used in) investing activities	**(175,611)**	(267,996)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on capital lease obligations	**(12,762)**	(32,005)
Proceeds from initial public offering of common stock, net of offering costs	**4,984,025**	(1,190,609)
Proceeds from secondary public offering of common stock, net of offering costs	**14,230,372**	
Proceeds from warrant exercises	**192,000**	619,980
Proceeds from borrowings on notes payable		5,120,000
Principal payments on notes payable	**(3,558,542)**	
Net cash provided by financing activities	**15,835,093**	4,517,366
Net increase (decrease) in cash and cash equivalents	**9,058,270**	(1,513,999)
CASH AND CASH EQUIVALENTS		
Beginning	**819,906**	2,417,256
Ending	**$ 9,878,176**	$ 903,257
SUPPLEMENTAL CASH FLOW DISCLOSURE		

Cash paid for interest	**$ 570,601**	$ 761,458
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Warrants issued for financing fees	**$ 47,000**	$ 727,000
Warrants issued with debt		2,048,000
Warrants issued for debt guarantee fee		755,000
Accrued offering costs		1,384,123
Offering costs discounted	**733,250**	
Accrued expenses reclassified as derivative warrant liability	**221,000**	148,000
Accrued expenses recorded as financing fees		184,000
Retirement of treasury stock	**17,442**	
Conversion of notes payable, lines of credit and accrued interest to common stock	**9,364,300**	
Conversion of preferred stock to common stock	**241**	
Reclassification of derivative warrants	**7,170,000**	
Cashless exercise of derivative warrants	**373,000**	
Reclassification of deferred offering costs to additional paid-in capital	**1,992,333**	

See Notes to Unaudited Consolidated Financial Statements.

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Notes to Unaudited Consolidated Financial Statements

Note 1. Organization, Description of Business, Reverse Stock Splits and Initial Public Offering

We were incorporated in the State of Delaware on April 8, 1999 and have offices and a laboratory located in Rutherford, New Jersey. Our wholly owned subsidiary, Cancer Genetics Italia SRL (CGI Italia), manages the manufacturing and manufactures DNA probes. CGI Italia had approximately $349,000 and $329,000 in total assets at September 30, 2013 and December 31, 2012, respectively, and approximately $55,000 and $24,000 in total revenue for the three months ended September 30, 2013 and 2012, and approximately $147,000 and $60,000 in total revenue for the nine months ended September 30, 2013 and 2012 respectively.

We are a diagnostics company focused on developing and commercializing proprietary genomic tests and services to improve the diagnosis, prognosis and response to treatment of cancer (theranosis). Our proprietary tests target cancers where prognosis information is critical and where predicting treatment outcomes using currently available techniques is limited. These cancers include hematological, urogenital and HPV-associated cancers. We have commercially launched MatBA® -CLL, -SLL, DLBCL and UroGenRA kidney as lab developed tests in the United States, and seek to provide our tests and services to oncologists and pathologists at hospitals, cancer centers and physician offices, as well as to biopharmaceutical companies and clinical research organizations for their clinical trials.

Reverse Stock Splits

On February 8, 2013, we filed a charter amendment with the Secretary of State for the State of Delaware and effected a 1-for-2 reverse stock split of our common stock. On March 1, 2013, we filed another charter amendment with the Secretary of State for the State of Delaware and effected a 1-for-2.5 reverse stock split of our common stock. All shares and per share information referenced throughout the consolidated financial statements have been retroactively adjusted to reflect both reverse stock splits.

Public Offerings

On April 10, 2013, we sold 690,000 shares of common stock at a public offering price of $10.00 per share and completed our initial public offering (IPO) with gross proceeds of $6.9 million (net proceeds of $5 million). Upon the closing of the IPO, all shares of our then-outstanding Series A and Series B convertible preferred stock automatically converted into an aggregate of 1,287,325 shares of common stock. Concurrent with the IPO, certain derivative warrants with a fair value of $7.2 million were reclassified into equity due to the lapsing of anti-dilution provisions in the warrants. Also concurrent with the IPO, $9.6 million of debt converted into 963,430 shares of common stock. All references to our Series A convertible preferred stock in this quarterly report on Form 10-Q refer collectively to the Series A and Series A-1 convertible preferred shares.

On August 19, 2013, we sold 1,500,000 shares of common stock at a public offering price of $10.00 per share resulting in gross proceeds of $15.0 million (net proceeds of $13.3 million). We used $3.5 million of the proceeds to repay certain indebtedness which was due on August 15, 2013 (see Note 4 for further discussion of the Company s debt). On September 5, 2013, we sold 105,000 additional common shares pursuant to partial exercise of the underwriter s over-allotment option which resulted in gross proceeds of $1.1 million (net proceeds of $947,000). All references to the sales of common stock mentioned in this paragraph are referred to as the Secondary Offering in this quarterly report on Form 10-Q.

Subsequent Event

On October 28, 2013, we sold 3,286,700 shares of common stock, (including the underwriter s overallotment of 428,700 shares), at a public offering price of $14.00 per share resulting in gross proceeds of $46.0 million. Net proceeds of $42.2 million were available to us from the public offering and were determined as follows:

Gross proceeds (including over-allotment)	$ 46,013,800
Underwriting discounts, expenses and commissions	(3,446,792)
Estimated other offering costs	(315,850)
Pro forma net proceeds	$ 42,251,158

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The following table summarizes certain actual balance sheet data and pro forma balance sheet data to reflect the activities related to our recent public offering noted above, as of September 30, 2013:

	September 30, 2013	Pro forma September 30, 2013
Cash and cash equivalents	$ 9,878,176	$ 52,129,334
Loan guarantee and financing fees	621,000	621,000
Accounts payable and accrued expenses	1,807,081	1,807,081
Notes payable, current portion	43,622	43,622
Line of credit	6,000,000	6,000,000
Warrant liability	1,178,000	1,178,000
Common stock	597	925
Additional paid-in capital	63,681,317	105,932,147
Accumulated deficit	$ (58,800,191)	$ (58,800,191)

Note 2. Significant Accounting Policies

Basis of presentation: The accompanying unaudited financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions for interim reporting as they are prescribed by the Securities and Exchange Commission. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary to make the financial statements not misleading have been included. As such, the information included in this quarterly report on Form 10-Q should be read in conjunction with the audited consolidated financial statements as of and for the year ended December 31, 2012 that are included in our prospectus filed with the SEC pursuant to Rule 424(b) under the Securities Act of 1933, on October 23, 2013 (Prospectus). The consolidated balance sheet as of December 31, 2012, included herein was derived from the audited financial statements as of that date, but does not include all disclosures including notes required by GAAP. Interim financial results are not necessarily indicative of the results that may be expected for future interim periods or for the year ending December 31, 2013.

Liquidity/Going Concern: Our primary sources of liquidity have been funds generated from debt financing, the sale of shares of common and preferred stock, grants in lieu of federal income tax credits, National Institute of Health grants and sales of state NOL carryforwards.

We believe our cash resources, prior to our latest offering of common stock, which was consummated on October 28, 2013, were sufficient to satisfy our liquidity requirements at our current level of operations through September 2014 and assuming we are able to secure an extension of the $6.0 million of indebtedness due April 1, 2014 through March 2015. We have commenced negotiations with Wells Fargo and with Mr. Pappajohn, who serves as a guarantor for such outstanding indebtedness, to further extend the maturity date. However, there can be no assurances that we will be successful. If we are not successful in obtaining an extension, we expect that we would use a portion of the net proceeds received from our latest offering of common stock, which was consummated on October 28, 2013, to repay that debt. Including the funds raised through the offering of common stock which was consummated on October 28, 2013, we believe that our current cash resources are sufficient to satisfy our liquidity requirements for at least two years even if we are unable to secure an extension of the Wells Fargo debt. Our forecast of the period of time through which our financial resources will be adequate to support our operations and the costs to support our general and administrative, sales and marketing and research and development activities are forward-looking statements and involve risks and uncertainties.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. The Company has suffered recurring losses from operations and had negative working capital at September 30, 2013. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty. Refer to the section entitled Capital Resources and Expenditure Requirements in Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations in the Form 10-Q of which these financial statements are a part.

Principles of consolidation: The accompanying consolidated financial statements include the accounts of Cancer Genetics, Inc. and our wholly owned subsidiary, Cancer Genetics Italia S.r.L. All significant intercompany account balances and transactions have been eliminated in consolidation.

Use of estimates and assumptions: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of

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assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates made by management include, among others, realization of amounts billed, realization of long-lived assets, realization of intangible assets, accruals for registration payments and assumptions used to value stock options and warrants. Actual results could differ from those estimates.

Risks and uncertainties: We operate in an industry that is subject to intense competition, government regulation and rapid technological change. Our operations are subject to significant risk and uncertainties including financial, operational, technological, regulatory and other risks, including the potential risk of business failure.

Cash and cash equivalents: Highly liquid investments with original maturities of three months or less when purchased are considered to be cash equivalents. Financial instruments which potentially subject us to concentrations of credit risk consist primarily of cash and cash equivalents. We maintain cash and cash equivalents with high-credit quality financial institutions. At times, such amounts may exceed insured limits. We have not experienced any losses in such accounts and believe we are not exposed to any significant credit risk on our cash and cash equivalents.

Revenue recognition: Revenue is recognized in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 605, *Revenue Recognition*, and ASC 954-605 Health Care Entities, *Revenue Recognition* which requires that four basic criteria must be met before revenue can be recognized: (1) persuasive evidence that an arrangement exists; (2) delivery has occurred and title and the risks and rewards of ownership have been transferred to the customer or services have been rendered; (3) the price is fixed or determinable; and (4) collectability is reasonably assured. In determining whether the price is fixed or determinable, we consider payment limits imposed by insurance carriers and Medicare and the amount of revenue recorded takes into account the historical percentage of revenue we have collected for each type of test for each payor category. Periodically, an adjustment is made to revenue to record differences between our anticipated cash receipts from insurance carriers and Medicare and actual receipts from such payors. For the periods presented, such adjustments were not significant. For direct bill customers (including clinical trials customers), revenue is recorded based upon the contractually agreed upon fee schedule. When assessing collectability, we consider whether we have sufficient payment history to reliably estimate a payor s individual payment patterns. For new tests where there is no evidence of payment history at the time the tests are completed, we only recognize revenues once reimbursement experience can be established. We then recognize revenue equal to the amount of cash received. Sales of probes are recorded on the shipping date. We do not bill customers for shipping and handling fees and do not collect any sales or other taxes.

Revenues from grants to support product development are recognized when costs and expenses under the terms of the grant have been incurred and payments under the grants become contractually due.

Accounts receivable: Accounts receivable are carried at original invoice amount less an estimate for contractual adjustments and doubtful receivables, the amounts of which are determined by an analysis of individual accounts. Our policy for assessing the collectability of receivables is dependent upon the major payor source of the underlying revenue. For direct bill clients, an assessment of credit worthiness is performed prior to initial engagement and is reassessed periodically. If deemed necessary, an allowance is established on receivables from direct bill clients. For insurance carriers where there is not an established pattern of collection, revenue is not recorded until cash is received. For receivables where insurance carriers have made payments to patients instead of directing payments to the Company, an allowance is established for a portion of such receivables. After reasonable collection efforts are exhausted, amounts deemed to be uncollectible are written off against the allowance for doubtful accounts. Since the Company only recognizes revenue to the extent it expects to collect such amounts, bad debt expense related to receivables from patient service revenue is recorded in general and administrative expense in the consolidated statement of operations. Recoveries of accounts receivable previously written off are recorded when received.

Deferred Offering costs: Deferred offering costs represent legal, accounting and other direct costs related to our effort to raise capital through a stock offering. Future costs related to our offering activities will be deferred until the completion of the offering, at which time they will be reclassified to additional paid-in capital as a reduction of the offering proceeds. In connection with our IPO, $617,706 in deferred offering costs were expensed and approximately $2.5 million in deferred offering costs were reclassified to additional paid-in capital. Additionally, $733,250 in deferred offering costs were reduced due to discounts given by vendors associated with that offering and $120,000 was refunded. In connection with our Secondary Offering, we incurred $1.8 million in offering costs, all of which were reclassified to additional paid-in-capital.

Warrant liability: We have issued certain warrants which contain an exercise price adjustment feature in the event we issue additional equity instruments at a price lower than the exercise price of the warrant. The warrants are described herein as derivative warrants. We account for these derivative warrants as liabilities. These common stock purchase warrants do not trade in an active securities market, and as such, we estimate the fair value of these warrants using the binomial lattice valuation pricing model with the assumptions as follows: The risk-free interest rate for periods within the contractual life of the warrant is based on the U.S. Treasury yield curve. The expected life of the warrants is based upon the contractual life of the warrants. Volatility is estimated based on an average of the historical volatilities of the common stock of four entities with characteristics similar to those of the Company. Prior to our IPO, the measurement date fair value of the underlying common shares was based upon an external valuation of our shares. (See Notes 8 and 9). Subsequent to the IPO and Secondary Offering, we use the closing

price of our shares on the OTC Bulletin Board and the NASDAQ Capital Market, respectively.

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We compute the fair value of the warrant liability at each reporting period and the change in the fair value is recorded as non-cash expense or non-cash income. The key component in the value of the warrant liability is our stock price, which is subject to significant fluctuation and is not under our control. The resulting effect on our net income (loss) is therefore subject to significant fluctuation and will continue to be so until the warrants are exercised, amended or expire. Assuming all other fair value inputs remain constant, we will record non-cash expense when the stock price increases and non-cash income when the stock price decreases.

Income taxes: Income taxes are provided for the tax effects of transactions reported in the consolidated financial statements and consist of taxes currently due plus deferred income taxes. Deferred income taxes are recognized for temporary differences between the financial statement and tax bases of assets and liabilities that will result in taxable or deductible amounts in the future. Deferred income taxes are also recognized for net operating loss carryforwards that are available to offset future taxable income and research and development credits. On January 22, 2013, we sold certain state net operating loss carryforwards. The proceeds of $663,900 are included in our income tax benefit for the nine months ended September 30, 2013.

Registration payment arrangements: We account for our obligations under registration payment arrangements in accordance with ASC 825-20, *Registration Payment Arrangements*. ASC 825-20 requires us to record a liability if we determine a registration payment is probable and if it can reasonably be estimated. As of September 30, 2013 and December 31, 2012, we have an accrued liability of $300,000 and $541,000, respectively, related to registration rights obligations associated with the issuance of Series B preferred stock and certain notes payable.

Stock-based compensation: Stock-based compensation is accounted for in accordance with the provisions of ASC 718, *Compensation-Stock Compensation*, which requires the measurement and recognition of compensation expense for all stock-based awards made to employees and directors based on estimated fair values on the grant date. We estimate the fair value of stock-based awards on the date of grant using the Black-Scholes option pricing model. The value of the portion of the award that is ultimately expected to vest is recognized as expense over the requisite service periods using the straight-line method. See additional information in Note 7.

All issuances of stock options or other issuances of equity instruments to employees as the consideration for services received by us are accounted for based on the fair value of the equity instrument issued.

We account for stock-based compensation awards to non-employees in accordance with ASC 505-50, *Equity Based Payments to Non-Employees*. Under ASC 505-50, we determine the fair value of the warrants or stock-based compensation awards granted as either the fair value of the consideration received or the fair value of the equity instruments issued, whichever is more reliably measurable. Stock-based compensation awards issued to non-employees are recorded in expense and additional paid-in capital in stockholders deficit over the applicable service periods based on the fair value of the awards or consideration received at the vesting date.

Subsequent events: We have evaluated potential subsequent events through November 13, 2013, which is the date the financial statements were issued.

Earnings (loss) per share: Basic earnings (loss) per share is computed by dividing net income (loss) available to common stockholders by the weighted average number of common shares assumed to be outstanding during the period of computation. Diluted earnings per share is computed similar to basic earnings per share except that the numerator is adjusted for the change in fair value of the warrant liability (only if dilutive) and the denominator is increased to include the number of dilutive potential common shares outstanding during the period using the treasury stock method.

Basic net income (loss) and diluted net loss per share data were computed as follows:

	Three Months Ended September 30,		**Nine Months Ended September 30,**	
	2013	2012	**2013**	2012
Numerator:				
Net income (loss) for basic earnings per share	**$ (3,066,376)**	$ 311,588	**$ (9,848,164)**	$ (2,621,390)
Less gain in fair value of warrant liability		3,334,000	**4,096,000**	6,370,000
Net (loss) for diluted earnings per share	**$ (3,066,376)**	$ (3,022,412)	**$ (13,944,164)**	$ (8,991,390)
Denominator:				
Weighted-average basic common shares outstanding	**5,055,591**	1,346,124	**3,463,730**	1,340,530

Assumed conversion of dilutive securities:					
Common stock purchase warrants		9,554		**4,897**	9,554
Potentially dilutive common shares		9,554		**4,897**	9,554
Denominator for diluted earnings per share adjusted weighted-average shares	**5,055,591**	1,355,678	**3,468,627**		1,350,084
Basic net income (loss) per share	**$ (0.61)**	$ 0.23	**$ (2.84)**	$	(1.96)
Diluted net loss per share	**$ (0.61)**	$ (2.23)	**$ (4.02)**	$	(6.66)

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The following table summarizes potentially dilutive adjustments to the weighted average number of common shares which were excluded from the calculation:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	**2013**	2012
Common stock purchase warrants	**1,843,582**	955,458	**1,843,582**	955,458
Stock options	**506,294**	553,580	**506,294**	553,580
Common shares issuable upon conversion of Series A Preferred Stock		352,614		352,614
Common shares issuable upon conversion of Series B Preferred Stock		364,320		364,320
	2,349,876	2,225,972	**2,349,876**	2,225,972

Note 3. Revenue and Accounts Receivable

Revenue by payor type for the three and nine months ended September 30, 2013 and 2012 is comprised of the following:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	**2013**	2012
Medicare	**$ 229,723**	$ 178,291	**$ 637,838**	$ 586,896
Direct bill (including clinical trials clients)	**1,060,684**	473,965	**2,798,883**	1,158,212
Grants and royalty	**100,000**	279,973	**100,000**	474,973
Insurance carrier and all others	**314,739**	310,375	**1,218,741**	1,005,750
	$ 1,705,146	$ 1,242,604	**$ 4,755,462**	$ 3,225,831

Accounts receivable by payor type at September 30, 2013 and December 31, 2012 consists of the following:

	September 30, 2013	December 31, 2012
Medicare	**$ 520,153**	$ 193,024
Direct bill (including clinical trials clients)	**585,034**	339,763
Insurance carrier and all others	**546,947**	353,758
Allowance for doubtful accounts	**(36,000)**	(36,000)
	$ 1,616,134	$ 850,545

We have historically derived a significant portion of our revenue from a limited number of test ordering sites. Our test ordering sites are largely hospitals, cancer centers, reference laboratories and physician offices, as well as biopharmaceutical companies as part of a clinical trial. Oncologists and pathologists at these sites order the tests on behalf of the needs of their oncology patients or as part of a clinical trial sponsored by a biopharmaceutical company in which the patient is being enrolled. We generally do not have formal, long-term written agreements with such test ordering sites, and, as a result, we may lose these significant test ordering sites at any time.

The top five test ordering sites during the three months ended September 30, 2013 and 2012 accounted for 75% and 61% respectively, of our clinical testing volumes, with 36% and 56% respectively, of the volume coming from community hospitals. During the three months ended September 30, 2013, there were two sites which accounted for more than 10% of our revenue: a clinical trial client accounted for approximately 44% of our revenue, and; a community hospital accounted for approximately 10%. During the three months ended September 30, 2012, there were three sites which each accounted for 10% or more of our clinical revenue: a clinical trial client accounted for approximately 15%; a

university teaching center accounting for approximately 12%, and; a community hospital network accounted for approximately 10%.

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The top five test ordering sites during the nine months ended September 30, 2013 and 2012 accounted for 71% and 61%, respectively, of our clinical testing volumes, with 37% and 47%, respectively, of the volume coming from community hospitals. During the nine months ended September 30, 2013, there was one site which accounted for more than 10% of our revenue: a clinical trial client accounted for approximately 40% of our revenue. During the nine months ended September 30, 2012, there were three sites which each accounted for approximately 10% or more of our clinical revenue: a university teaching center accounting for approximately 15%; a clinical trial client accounted for approximately 12%, and; a community hospital accounted for approximately 11%.

Note 4. Notes Payable and Lines of Credit

Below is a summary of our short-term and long-term debt obligations as of September 30, 2013 and December 31, 2012:

	September 30, 2013	December 31, 2012
December 2011 Financing Transaction	**$**	$ 4,000,000
Secured Note Payable, short-term	**43,622**	79,867
Unamortized debt discount		(243,300)
Notes Payable, Current Portion	**$ 43,622**	$ 3,836,567
Lines of Credit, Current Portion	**$ 6,000,000**	$ 3,000,000
Unamortized Debt Discount		(128,800)
Lines of Credit, Current Portion	**$ 6,000,000**	$ 2,871,200
December 2011 Financing Transaction	**$**	$ 2,000,000
2012 Convertible Debt Financing Transaction		3,000,000
December 2012 Bridge Financing Transaction		1,000,000
Other Note Payable		100,000
Secured Note Payable		22,298
Unamortized debt discount		(3,681,615)
Notes Payable, Long-Term	**$**	$ 2,440,683
Lines of Credit, Long-Term	**$**	$ 6,000,000

Business Line of Credit Wells Fargo

At September 30, 2013 and December 31, 2012, we have fully utilized a line of credit with Wells Fargo Bank which provides for maximum borrowings of $6 million. Interest on the line of credit is due monthly equal to 1.75% above the Daily One Month LIBOR rate (2.0% at September 30, 2013). The line of credit requires the repayment of principal, and any unpaid interest, in a single payment due upon maturity. The line of credit matures April 1, 2014, is guaranteed by Mr. Pappajohn, and is collateralized by a first lien on all of our assets including the assignment of our approved and pending patent applications.

Secured Note Payable

On September 25, 2012, we entered into a note payable secured by lab equipment due March 25, 2014. The note requires monthly payments of principal and interest at 18% per annum. At September 30, 2013, and December 31, 2012, $43,622 and $102,165 was outstanding under the note.

Conversion of Debt concurrent with IPO

On April 10, 2013, we completed our IPO and converted the following indebtedness into shares of common stock at the IPO price of $10.00 per share:

	Converted Amount	Common Shares
December 2011 Financing Transaction	$ 4,500,000	450,000
2012 Convertible Debt Financing Transaction	3,000,000	300,000
December 2012 Bridge Financing Transaction	1,000,000	100,000
Business Lines of Credit (DAM)	1,000,000	100,000
Other Note Payable and accrued interest	134,300	13,430
	$ 9,634,300	963,430

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In connection with the conversion of debt into common stock, we expensed the applicable remaining debt discounts of $3.5 million, financing fees of $419,000 and a contingently recognizable beneficial conversion feature in the converted debt of $3 million.

December 2011 Financing Transaction

At September 30, 2013 and December 31, 2012, $0.0 and $6.0 million, respectively, was outstanding under a Credit Agreement dated as of December 21, 2011, as amended and restated as of February 13, 2012.

The Credit Agreement was with John Pappajohn and Andrew Pecora (indirectly through an investment company), both members of our board of directors, and NNJCA Capital, LLC (NNJCA), a limited liability company of which Dr. Pecora is a member. Mr. Pappajohn originally provided $4.0 million of financing, NNJCA originally provided $1.5 million of financing and Dr. Pecora provided $500,000 of financing under the Credit Agreement. On April 10, 2013, Mr. Pappajohn converted $4.0 million and NNJCA converted $500,000 into 450,000 shares of our common stock at the IPO price of $10.00 per share concurrent with our IPO. The remaining outstanding balance of $1.5 million was repaid on August 19, 2013 using a portion of the proceeds from our Secondary Offering.

The loan bore an annual interest rate equal to the prime rate plus 6.25% (9.50% at August 19, 2013). We accrued a fee due to Pecora and NNJCA of $130,000 of which $32,667 was paid upon conversion of the notes and the remaining balance paid on August 19, 2013. The loan was secured by all of our assets, including our intellectual property, subject to prior first and second liens in favor of Wells Fargo Bank and DAM Holdings, LLC (DAM).

2012 Convertible Debt Financing Transaction

On April 10, 2013, the entire $3 million outstanding under a Restated Credit Agreement dated as of August 27, 2012, as amended and restated as of October 17, 2012, ($1,750,000 provided by Mr. Pappajohn and $1,250,000 provided by Mr. Oman) was converted into 300,000 shares of common stock at the IPO price of $10 per share.

Through April 10, 2013, the loan bore interest at the prime rate plus 6.25% (9.50% at April 10, 2013). In February 2013, because we did not consummate our IPO within 181 days of funding, the lenders received ten-year warrants to purchase an aggregate of 7,059 shares of our common stock (issued in proportion to their respective funding amounts) with an exercise price equal to the lesser of (i) $42.50 per share or (ii) the IPO price per share, which was $10.00. Pursuant to a subsequent agreement, described below, the warrants held by Mr. Pappajohn have an exercise price of $15.00 per share. The warrant exercise price is subject to standard anti-dilution protection in the event of stock splits, stock dividends, stock combinations, reclassifications and the like.

December 2012 Bridge Financing Transaction

On April 10, 2013, the entire $1 million outstanding under a credit agreement dated as of December 7, 2012, (all of which was provided by Mr. Pappajohn), was converted into 100,000 shares of common stock at the IPO price of $10.00 per share.

Through April 10, 2013, the loan bore interest at the prime rate plus 6.25% (9.50% at April 10, 2013). The credit agreement required Mr. Pappajohn to convert the outstanding principal balance into shares of our common stock at a conversion price equal to the lesser of $42.50 or our IPO price and as a result all debt was converted on April 10, 2013 at the IPO price of $10.00 per share. In March 2013, Mr. Pappajohn received ten-year warrants to purchase an aggregate of 2,353 shares of our common stock with an exercise price equal to the lesser of (i) $42.50 per share or (ii) the IPO or merger price per share, because we did not consummate our IPO by March 7, 2013. Mr. Pappajohn subsequently agreed that if our final IPO price was below $15.00, there would be no further adjustment to the price or number of shares covered by the warrants held by him. The warrant exercise price is subject to standard anti-dilution protection in the event of stock splits, stock dividends, stock combinations, reclassifications and the like.

Business Line of Credit DAM

At September 30, 2013 and December 31, 2012, $0.0 million and $3 million, respectively, were outstanding under a line of credit agreement with DAM.

On April 10, 2013, $1 million of indebtedness under this line was converted into 100,000 shares of common stock at the IPO price of $10 per share. The remaining outstanding balance of $2.0 million was repaid on August 19, 2013 using a portion of the proceeds from our Secondary Offering.

Pursuant to an intercreditor agreement between Mr. Pappajohn and DAM (the Intercreditor Agreement), we were required to use the proceeds from our IPO to repay the full amount outstanding under the DAM Loan Agreement before any proceeds can be used to repay any debt outstanding under the Wells Fargo Line of Credit. On February 13, 2013, DAM agreed to convert $1.0 million which had been due April 1, 2013 of outstanding indebtedness into shares of common stock at the IPO price per share. We had accrued a fee

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due to DAM of $52,500 which was paid upon conversion of the line of credit. On March 19, 2013, the maturity date for $2 million of the DAM debt was extended to mature on August 15, 2013. The DAM debt bore an annual interest rate of 10% payable in equal monthly installments.

Other Note Payable

At December 31, 2012, notes payable included a $100,000 note payable to Dr. Chaganti, our Chairman of the Board. Accrued interest at December 31, 2012 was approximately $34,300. The note bore interest at 8.5% per annum. On April 10, 2013, the note and accrued interest converted into 13,430 shares of common stock at the IPO price of $10.00 per share.

Note 5. Letter of Credit

Pursuant to the terms of our lease for our Rutherford facility, during the second fiscal quarter of 2013 we restricted an additional $50,000 in cash in addition to the $250,000 that was previously restricted in order to secure a $300,000 letter of credit in favor of our landlord.

Note 6. Capital Stock

On April 10, 2013, we completed our IPO in which we issued and sold 690,000 shares of common stock (including the underwriter s overallotment of 90,000 shares) at a public offering price of $10.00 per share. In connection with the offering, all outstanding shares of Series A preferred stock were converted into 376,525 shares of common stock, and all outstanding shares of Series B preferred stock were converted into 910,800 shares of common stock. Concurrent with the IPO, we issued 2,000 shares of common stock to Cleveland Clinic pursuant to our license agreement with Cleveland Clinic.

On August 19, 2013, we sold 1,500,000 shares of common stock at a public offering price of $10.00 per share resulting in gross proceeds of $15.0 million ($13.3 million of net proceeds after offering expenses and underwriting discounts).

On September 5, 2013, we sold 105,000 additional common shares pursuant to the underwriter s partial exercise of the over-allotment option which resulted in gross proceeds of $1.1 million ($947,000 of net proceeds after offering expenses and underwriting discounts).

We are currently authorized to issue up to 9,764,000 shares of preferred stock.

Subsequent Event

On October 28, 2013, we sold 3,286,700 shares of common stock, (including the underwriter s overallotment of 428,700 shares), at a public offering price of $14.00 per share resulting in gross proceeds of $46.0 million (net proceeds of $42.2 million).

Note 7. Stock Option Plans

We have two equity incentive plans: the 2008 Stock Option Plan (the 2008 Plan) and the 2011 Equity Incentive Plan (the 2011 Plan , and together with the 2008 Plan, the Stock Option Plans). The 2011 Plan was approved by the Board of Directors on June 30, 2011 and was subsequently ratified by stockholders. The 2011 Plan authorizes the issuance of up to 350,000 shares of common stock under several types of equity awards including stock options, stock appreciation rights, restricted stock awards and other awards defined in the 2011 Plan. There have been no awards under the 2011 Plan.

The Board of Directors adopted the 2008 Plan on April 29, 2008 and reserved 251,475 shares of common stock for issuance under the plan. On April 1, 2010, the stockholders voted to increase the number of shares reserved by the plan to 550,000. The 2008 Plan is meant to provide additional incentive to officers, employees and consultants to remain in our employment. We are authorized to issue incentive stock options or non-statutory stock options to eligible participants. Options granted are generally exercisable for up to 10 years.

At September 30, 2013, 91,706 shares remain available for future awards under the 2008 Plan and 350,000 shares remain available for future awards under the 2011 Plan.

As of September 30, 2013, no stock appreciation rights, restricted stock, or awards other than stock options had been awarded under the Stock Option Plans.

We have also issued 48,000 options outside of the Stock Option Plans.

The Board of Directors authorized an offer to certain employee options holders on the following terms: those employees holding stock options with a strike price of $25.00 or more had the opportunity to exchange their options for 60% of the number of options currently held with an exercise price equal to the IPO price, which was $10.00 per share, and those employees holding stock options with a

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strike price of $12.50 had the opportunity to exchange their options for 80% of the number of options currently held with an exercise price equal to the IPO price which was $10.00 per share. On April 5, 2013, our initial public offering became effective and 336,300 options with exercise prices ranging from $12.50 to $33.80 were exchanged for 242,070 options with an exercise price of $10.00. In addition, 53,500 options which were approved to be issued and priced at the IPO price were issued to employees with an exercise price of $10.00 per share.

On April 17, 2013, we issued 5,850 options to employees with an exercise price of $11.75 per share as approved by the Board of Directors.

A summary of employee and nonemployee stock option activity for year ended December 31, 2012 and the nine months ended September 30, 2013 is as follows:

	Options Outstanding			
	Number of Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Outstanding January 1, 2012	559,990	$ 12.85	8.10	$ 11,737,710
Granted	2,400	33.80		
Cancelled or expired	(9,050)	23.43		
Outstanding December 31, 2012	553,340	$ 12.76	7.13	$ 1,142,432
Granted	59,350	10.17		
Cancelled or expired	(106,396)	20.46		
Outstanding September 30, 2013	506,294	$ 7.60	6.53	$ 6,407,644
Exercisable, September 30, 2013	393,580	$ 7.00	6.24	$ 5,220,243

Aggregate intrinsic value represents the difference between the estimated fair value of our common stock and the exercise price of outstanding, in-the-money options. The estimated fair value of our common stock was $20.26 and $9.60 as of September 30, 2013 and December 31, 2012, respectively. No options were exercised during the nine months ended September 30, 2013 and 2012.

As of September 30, 2013 and December 31, 2012, total unrecognized compensation cost related to nonvested stock options granted to employees was $768,129 and $846,810 respectively, which we expect to recognize over the next 2.57 and 2.61 years, respectively.

As of September 30, 2013 there was no unrecognized compensation cost related to nonvested stock options granted to non-employees. As of December 31, 2012, total unrecognized compensation cost related to nonvested stock options granted to non-employees was $190,500, which was recognized over the first six months of 2013. The estimate of unrecognized nonemployee compensation is based on the fair value of the nonvested options as of December 31, 2012.

The following table summarizes information about outstanding and vested stock options granted to employees and non-employees as of September 30, 2013 as follows:

	Options Outstanding			Options Vested and Exercisable	
Exercise Price	Number of Shares Outstanding	Weighted-Average Remaining Contractual Life (in years)	Weighted-Average Exercise Price	Number of Shares	Weighted-Average Exercise Price

4.00	175,000	5.58	$ 4.00	175,000	$ 4.00
4.80	33,340	6.30	4.80	25,459	4.80
10.00	292,154	7.06	10.00	193,011	10.00
11.75	5,600	9.54	11.75		11.75
12.50	200	7.19	12.50	110	12.50
Total	506,294	6.53	$ 7.60	393,580	$ 7.00

The fair value of options granted to employees is estimated on the grant date using the Black-Scholes option valuation model. This valuation model for stock-based compensation expense requires us to make assumptions and judgments about the variables used in the calculation, including the fair value of our common stock (see Note 9), the expected term (the period of time that the options granted are expected to be outstanding), the volatility of our common stock, a risk-free interest rate, and expected dividends. We also estimate forfeitures of unvested stock options. To the extent actual forfeitures differ from the estimates, the difference will be recorded as a

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cumulative adjustment in the period estimates are revised. No compensation cost is recorded for options that do not vest. We use the simplified calculation of expected life described in the SEC s Staff Accounting Bulletin No. 107, *Share-Based Payment*, and volatility is based on an average of the historical volatilities of the common stock of four entities with characteristics similar to those of the Company. The risk-free rate is based on the U.S. Treasury yield curve in effect at the time of grant for periods corresponding with the expected life of the option. We use an expected dividend yield of zero, as we do not anticipate paying any dividends in the foreseeable future. Expected forfeitures are assumed to be zero due to the small number of plan participants and the plan design which has monthly vesting after an initial cliff vesting period.

The following table presents the weighted-average assumptions used to estimate the fair value of options granted to employees during the periods presented:

	Nine Months Ended September 30,	
	2013	2012
Volatility	77.11%	77.39%
Risk free interest rate	0.76%	1.43%
Dividend yield	0.00%	0.00%
Term (years)	5.95	6.50
Weighted-average fair value of options granted during the period	$ 6.72	$ 9.34

There were no options granted during the three months ended September 30, 2013 and 2012.

In 2010, we issued an aggregate of 80,000 options to non-employees with an exercise price of $25.00. As described above, on April 5, 2013, these options were exchanged for 48,000 options with an exercise price of $10.00. The following table presents the weighted-average assumptions used to estimate the fair value of options reaching their measurement date for non-employees during the periods presented:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Volatility	75.32%	75.23%	75.87%	75.01%
Risk free interest rate	1.93%	1.04%	1.40%	1.31%
Dividend yield	0.00%	0.00%	0.00%	0.00%
Term (years)	7.21	8.10	7.50	8.35

The following table presents the effects of stock-based compensation related to stock option awards to employees and nonemployees on our Statement of Operations during the periods presented:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	**2013**	2012
Cost of revenues	**$ 8,442**	$ 1,126	**$ 22,621**	$ 9,557
Research and development	**28,516**	120,183	**119,314**	389,295
General and administrative	**71,268**	62,426	**223,535**	223,150
Sales and marketing	**9,107**	17,748	**41,731**	144,165
Total stock-based compensation	**$ 117,333**	$ 201,483	**$ 407,202**	$ 766,167

Subsequent Events

On October 3, 2013, the Company received $1,640 from a former employee who exercised options to purchase 164 shares of common stock at $10.00 per share.

On October 8, 2013, the Compensation Committee of the Company s Board of Directors (the Compensation Committee) granted eight employees incentive stock options to purchase a total of 19,600 shares of the Company s common stock at an exercise price of $19.88 per share (the closing price of a share of common stock on The NASDAQ Capital Market on October 7, 2013). The options are scheduled to vest over a period of five years.

On October 10, 2013 (the Grant Date), the Compensation Committee granted each the Company s Chief Executive Officer and Vice President Research and Development an option to purchase 200,000 shares and 10,000 shares, respectively, of the Company s common stock at an exercise price of $15.39 per share (the closing price of a share of common stock on The NASDAQ Capital

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Market on the business day immediately prior to the Grant Date). The options are scheduled to expire on the tenth anniversary of the Grant Date and are scheduled to vest over a period of five years from the Grant Date. The vesting of the option granted to the Chief Executive Officer may be accelerated upon the achievement of certain milestones. In addition, the Company committed to issue 50,000 restricted shares of common stock to the Chief Executive Officer.

On October 10, 2013, the Company granted each non-employee director, other than the chairman of the board, options to purchase 10,000 shares of Common Stock at an exercise price of $15.39 (the closing price of a share of common stock on The NASDAQ Capital Market on October 9, 2013), resulting in a total grant of 60,000 options. In addition, the Company granted Mr. Brownlie, the chairman of the audit committee, options to purchase 12,312 shares of Common Stock at an exercise price of $15.39 and the Company granted Mr. Thompson 2,500 fully vested shares of restricted stock in recognition of his past service as chairman of the audit committee.

On October 10, 2013, the Compensation Committee granted 12 employees incentive stock options to purchase a total of 77,000 shares of the Company s common stock at an exercise price of $15.39 per share (the closing price of a share of common stock on The NASDAQ Capital Market on October 9, 2013). The options are scheduled to vest over a period of five years.

On October 10, 2013, the Company s board of directors adopted a compensation policy for its non-employee directors, other than the chairman of the board who is compensated pursuant to the terms of a separate consulting agreement. This policy provides for the following cash compensation to the Company s non-employee directors, other than the chairman of the board:

- each non-employee director will receive an annual base fee of $10,000; and
- in addition to the $10,000 annual base fee, the chairman of the audit committee will receive an annual fee of $10,000.

This policy provides for the following equity compensation to the Company s non-employee directors, other than our chairman of the board:

- each non-employee director, other than the chairman of the board, will receive bi-annual restricted stock awards of 5,000 shares of common stock; and
- each non-employee director, other than the chairman of the board, will receive annual option grants to purchase 10,000 shares of common stock.

The restricted stock awards and option grants will each vest in two equal annual installments. Equity grants under the director compensation policy are subject to the adoption of a new equity plan or amendment to increase the shares available for issuance under the 2011 Plan.

All fees under the director compensation policy will be paid on a quarterly basis and no per meeting fees will be paid. The Company will also reimburse non-employee directors for reasonable expenses incurred in connection with attending board and committee meetings.

Note 8. Warrants

We have issued certain warrants which contain an exercise price adjustment feature in the event we issue additional equity instruments at a price lower than the exercise price of the warrant. The warrants are described herein as derivative warrants. For all derivative warrants, in the event equity instruments are issued at a price lower than the exercise price of the warrant, the exercise price is adjusted to the price of the new equity instruments issued (price adjustment feature). For certain of these warrants, the number of shares underlying the warrant is also adjusted to an amount computed by dividing the proceeds of the warrant under its original terms by the revised exercise price (share adjustment feature). These warrants are initially recorded as a warrant liability at fair value with a corresponding entry to the loan guarantee fee asset, debt discount, additional paid-in capital or expense dependent upon the service provided in exchange for the warrant grant. Subsequently, any change in fair value is recognized in earnings until such time as the warrants are exercised, amended or expire.

In connection with the 2012 Convertible Debt Financing Transaction, we granted 4,118 warrants to Mr. Pappajohn and 2,941 warrants to Mr. Oman on February 22, 2013. The warrants have a ten-year term and an exercise price equal to the IPO price of $10.00 per share. Pursuant to a subsequent agreement, the warrants held by Mr. Pappajohn have an exercise price of $15.00 per share. These warrants were initially recorded

at fair value as a financing fee asset and were amortized over the period of the note to interest expense. The issue date fair value of these warrants was $221,000.

In connection with the December 2012 Bridge Financing Transaction, we granted 2,353 ten-year warrants with an exercise price equal to the IPO price of $10.00 per share to Mr. Pappajohn on March 7, 2013. Mr. Pappajohn subsequently agreed that if our final IPO price was below $15.00, there would be no further adjustment to the price or number of shares covered by the warrants held by him. These warrants were initially recorded at fair value as a financing fee asset and were amortized over the period of the note to interest expense. The issue date fair value of these warrants was $47,000.

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On February 11, 2013, John Pappajohn agreed to limit certain anti-dilution rights in his warrants to purchase shares of the Company s common stock. Subject to the consummation of an IPO prior to April 13, 2013, Mr. Pappajohn agreed that if the final IPO price was below $15.00, the exercise price of the warrants held by him would adjust to $15.00 and the number of shares underlying the warrants would be adjusted as if the IPO price were $15.00 and then there would be no further adjustment to the price or number of shares covered by warrants held by him. In February 2013, certain warrant holders agreed to waive the price and share adjustment provisions of their warrants, except for the anti-dilution provisions related to stock splits, subdivisions and combinations, with respect to an aggregate of 114,030 shares of common stock underlying such warrants, effective immediately following the consummation of our IPO on April 10, 2013 at $10.00 per share.

On April 10, 2013, the Company completed the IPO at $10.00 per share. The shares of common stock issuable upon the exercise of warrants increased by 838,889 shares and the exercise prices of 1,656,860 warrants were adjusted as a result of share and exercise price adjustment features in certain warrants.

On April 29, 2013, the Company received $96,000 from shareholders who exercised warrants to purchase 24,000 shares of common stock at $4.00 per share.

On July 6, 2013, a warrant holder exercised a warrant to purchase 6,000 shares of common stock at an exercise price of $4.00 per share using the net issuance exercise method whereby 2,072 shares were surrendered as payment in full of the exercise price resulting in a net issuance of 3,928 shares.

On July 8, 2013, the Company received $96,000 from shareholders who exercised warrants to purchase 24,000 shares of common stock at $4.00 per share.

On September 10, 2013 and September 27, 2013, the Company extended the expiration date of 42,468 warrants for 17 days and 11 days respectively.

On September 30, 2013, warrant holders exercised warrants to purchase 30,034 shares of common stock at an exercise price of $10.00 per share using the net issuance exercise method whereby 14,313 shares were surrendered as payment in full of the exercise price resulting in a net issuance of 15,721 shares.

The following table summarizes the warrant activity for the nine months ended September 30, 2013:

Issued With / For	Exercise Price	Warrants Outstanding January 1, 2013	2013 Warrants Issued	2013 Warrants Exercised	2013 Warrants Expired	IPO Adjustments (E)	Warrants Outstanding September 30, 2013
Non-Derivative Warrants:							
Financing	$ 10.00					243,334	243,334
Financing	15.00					436,079	436,079
Debt Guarantee	4.00	228,288		(54,000)			174,288
Debt Guarantee	10.00					237,500	237,500
Debt Guarantee	15.00					585,645	585,645
Series A Pref. Stock	14.10	65,329			(22,861)		42,468
Consulting	10.00					29,138	29,138
	12.42 [F]	293,617		(54,000)	(22,861)	1,531,696	1,748,452
Derivative Warrants:							
Financing	10.00 [B]					60,000	60,000
Financing	25.00 [B]	60,000				(60,000)	
Financing	42.50 [BCD]	75,294				(75,294)	
Financing	42.50 [AD]	54,314	2,941			(57,255)	
Financing	42.50 [ACD]	120,865	6,471			(127,336)	
Debt Guarantee	10.00 [A]					12,500	12,500
Debt Guarantee	25.00 [ACD]	212,000				(212,000)	

Debt Guarantee	25.00 [AD]	95,000				(95,000)	
Debt Guarantee	25.00 [A]	5,000				(5,000)	
Debt Guarantee	32.45 [ACD]	40,000				(40,000)	
Debt Guarantee	42.50 [ACD]	38,392				(38,392)	
Debt Guarantee	42.50 [BCD]	37,000				(37,000)	
Series B Pref. Stock	10.00 [B]			(30,034)		52,464	22,430
Series B Pref. Stock	25.00 [B]	52,464				(52,464)	
Consulting	10.00 [B]					200	200
Consulting	12.50 [AD]	4,030				(4,030)	
Consulting	14.10 [AD]	10,000				(10,000)	
Consulting	25.00 [B]	200				(200)	
Consulting	25.00 [AD]	4,000				(4,000)	
	10.00 [F]	808,559	9,412	(30,034)		(692,807)	95,130
	$ 12.30 [F]	1,102,176	9,412	(84,034)	(22,861)	838,889	1,843,582

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[A] These warrants are subject to fair value accounting and contain exercise price and number of share adjustment features. See Note 9.
[B] These warrants are subject to fair value accounting and contain an exercise price adjustment feature. See Note 9.
[C] On February 11, 2013, these warrants held by John Pappajohn were amended to limit the adjustment feature(s) to $15.00 per share in an initial public offering (totaling 530,022 warrants).
[D] The exercise price and/or number of share adjustment features of these warrants expired and are no longer subject to fair value accounting after our initial public offering.
[E] On April 10, 2013 the Company completed the IPO at $10.00 per share. The shares of common stock issuable upon the exercise of warrants outstanding as of April 10, 2013 increased by 838,889 shares and the exercise prices of 1,656,860 warrants were adjusted as a result of the share and exercise price adjustment features described above.
[F] Weighted average exercise prices are as of September 30, 2013.

Subsequent Event

On October 28, 2013, warrant holders exercised warrants to purchase 33,868 shares of common stock, at exercise prices ranging from $10.00 $14.10 per share, using the net issuance exercise method whereby 23,188 shares were surrendered as payment in full of the exercise price resulting in a net issuance of 10,680 shares.

Note 9. Fair Value of Warrants

The following tables summarize the assumptions used in computing the fair value of derivative warrants subject to fair value accounting at the date of issue during the nine months ended September 30, 2013 and 2012 and at September 30, 2013, April 5, 2013 (IPO valuation date) and December 31, 2012. In computing the fair value of the warrants, if the stated exercise price of the warrants exceeded the assumed value of the Company stock at the date the fair value was being computed, the exercise price and number of shares (if applicable) underlying the warrants were adjusted to reflect an assumed trigger of the price and/or share adjustment features related to the applicable warrants:

Debt Guarantee	Issued During the Nine Months Ended September 30, 2012	As of September 30, 2013	As of April 5, 2013	As of December 31, 2012
Exercise Price	$ 42.50	$ 10.00	$ 13.56	$ 9.60
Expected life (years)	4.73	1.08	2.42	2.66
Expected volatility	80.47%	57.51%	66.37%	67.71%
Risk-free interest rate	0.90%	0.10%	0.32%	0.37%
Expected dividend yield	0.00%	0.00%	0.00%	0.00%

Series B	As of September 30, 2013	As of December 31, 2012
Exercise Price	$ 10.00	$ 9.60
Expected life (years)	2.17	2.92
Expected volatility	65.18%	61.44%
Risk-free interest rate	0.33%	0.36%
Expected dividend yield	0.00%	0.00%

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Consulting	As of September 30, 2013	As of April 5, 2013	As of December 31, 2012
Exercise Price	$ 10.00	$ 10.00	$ 9.60
Expected life (years)	2.39	2.33	2.48
Expected volatility	63.81%	63.20%	63.29%
Risk-free interest rate	0.33%	0.27%	0.28%
Expected dividend yield	0.00%	0.00%	0.00%

Financing	Issued During the Nine Months Ended September 30, 2013	Issued During the Nine Months Ended September 30, 2012	Issued During the Three Months Ended September 30, 2012	As of September 30, 2013	As of April 5, 2013	As of December 31, 2012
Exercise Price	$ 13.34	$ 42.50	$ 42.50	$ 10.00	$ 13.21	$ 9.60
Expected life (years)	9.78	4.93	5.08	2.50	8.30	6.66
Expected volatility	74.70%	79.41%	79.36%	63.12%	73.22%	73.38%
Risk-free interest rate	1.95%	0.79%	0.71%	0.63%	1.44%	1.06%
Expected dividend yield	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

The assumed Company stock price used in computing the warrant fair value for warrants issued during the nine months ended September 30, 2013 was $9.60 $20.26 and $18.70 $33.80 for the nine months ended September 30, 2012. In determining the fair value of warrants issued at each reporting date, the assumed Company stock price was $20.26 at September 30, 2013 and $9.60 at December 31, 2012.

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The following table summarizes the derivative warrant activity subject to fair value accounting for the nine months ended September 30, 2013:

Issued with/for	Fair value of warrants outstanding as of December 31, 2012	Fair value of warrants issued	Reclassification to equity in IPO	Warrants Exercised	Change in fair value of warrants	Fair value of warrants outstanding as of September 30, 2013
Series B Preferred Stock	$ 230,000	$	$	$ (373,000)	$ 422,000	$ 279,000
Debt Guarantee	5,679,000		(2,514,000)		(3,026,000)	139,000
Consulting	147,000		(108,000)		(36,000)	3,000
Financing	6,493,000	268,000	(4,548,000)		(1,456,000)	757,000
	$ 12,549,000	$ 268,000	$ (7,170,000)	$ (373,000)	$ (4,096,000)	$ 1,178,000

Note 10. Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. The Fair Value Measurements and Disclosures Topic of the FASB Accounting Standards Codification requires the use of valuation techniques that are consistent with the market approach, the income approach and/or the cost approach. Inputs to valuation techniques refer to the assumptions that market participants would use in pricing the asset or liability. Inputs may be observable, meaning those that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from independent sources, or unobservable, meaning those that reflect our own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. In that regard, the Topic establishes a fair value hierarchy for valuation inputs that give the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair value hierarchy is as follows:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that we have the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect our own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The following table summarizes the financial liabilities measured at fair value on a recurring basis segregated by the level of valuation inputs within the fair value hierarchy utilized to measure fair value:

	September 30, 2013			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Warrant liability	**$ 1,178,000**			**$ 1,178,000**

	December 31, 2012			
	Total	Quoted Prices in Active Markets for	Significant Other Observable	Significant Unobservable

		Identical Assets (Level 1)	Inputs (Level 2)	Inputs (Level 3)
Warrant liability	$ 12,549,000			$ 12,549,000

The warrant liability consists of stock warrants we issued that contain an exercise price adjustment feature. In accordance with derivative accounting for warrants, we calculated the fair value of warrants and the assumptions used are described in Note 9, Fair Value of Warrants . Realized and unrealized gains and losses related to the change in fair value of the warrant liability are included in Other income (expense) on the Statement of Operations.

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The following table reflects the activity for liabilities measured at fair value using Level 3 inputs for the nine months ended September 30:

	2013	2012
Balance as of January 1	**$ 12,549,000**	$ 11,113,000
Issuances of derivative financial instruments	**268,000**	3,678,000
Derivative financial instruments reclassified to equity in IPO	**(7,170,000)**	
Derivative financial instruments reclassified to equity upon exercise	**(373,000)**	
Unrealized (gain) loss related to change in fair value	**(4,096,000)**	(6,370,000)
Balance as of September 30	**$ 1,178,000**	$ 8,421,000

Note 11. Joint Venture Agreement

In November 2011, we entered into an affiliation agreement with the Mayo Foundation for Medical Education and Research (Mayo), subsequently amended. Under the agreement, we formed a joint venture with Mayo in May 2013 to focus on developing oncology diagnostic services and tests utilizing next generation sequencing. The joint venture will take the form of a limited liability company, with each party initially holding fifty percent of the issued and outstanding membership interests of the new entity (the JV). The agreement also requires aggregate total capital contributions by us of up to $5.0 million over the next two and a half years, with $4.0 million of such amount subject to the joint venture achieving certain operational milestones. In exchange for its membership interests, Mayo s capital contribution will take the form of cash, staff, services, hardware and software resources, laboratory space and instrumentation, the fair market value of which will be approximately equal to $6 million. Mayo s continued contribution will also be conditioned upon the JV s achievement of certain milestones. The operation of the joint venture may also divert management time from operating our business. No assurances can be given that we will be able to fully fund the joint venture agreement, or that, even if funded, the joint venture will ever achieve the research, development and commercial objectives currently contemplated by the parties, such as the discovery and commercialization of new diagnostic tests utilizing next-generation sequencing. If the development efforts of the joint venture do not result in commercially successful tests or services, it will have an adverse effect on our business, financial condition and results of operations.

Subsequent Event

In exchange for the membership interests in the JV, we made an initial capital contribution of $1.0 million in October 2013. In addition, in October 2013, we issued 10,000 shares of our common stock to Mayo pursuant to our affiliation agreement with Mayo.

Note 12. Related Party Transactions

John Pappajohn, a member of the Board of Directors and stockholder, personally guarantees our revolving line of credit with Wells Fargo Bank. As consideration for his guarantee, as well as each of the eight extensions of this facility through September 30, 2013, Mr. Pappajohn received warrants to purchase an aggregate of 1,051,506 shares of common stock of which Mr. Pappajohn assigned warrants to purchase 284,000 shares of common stock to certain third parties. Warrants to purchase 395,825 shares of common stock have been exercised by Mr. Pappajohn through September 30, 2013. After adjustment pursuant to the terms of the warrants in conjunction with our IPO, the number of these warrants outstanding retained by Mr. Pappajohn was 585,645 at $15.00 per share and 44,288 at $4.00 per share.

In addition, John Pappajohn also had loaned us an aggregate of $6,750,000. In connection with these loans, Mr. Pappajohn received warrants to purchase an aggregate of 202,630 shares of common stock. After adjustment pursuant to the terms of the warrants in conjunction with our IPO, the number of warrants outstanding was 436,079 at $15.00 per share at September 30, 2013.

Andrew Pecora (indirectly through an investment company), a member of our board of directors, and NNJCA, a limited liability company of which Dr. Pecora is a member originally provided $500,000 and $1.5 million of financing, respectively, under a Credit Agreement dated as of December 21, 2011, as amended and restated as of February 13, 2012. On April 10, 2013, NNJCA converted $500,000 of its outstanding indebtedness into 50,000 shares of our common stock at the IPO price of $10.00 per share concurrent with our IPO. On August 19, 2013, the remaining principal under these notes were repaid to Dr. Pecora and NNJCA using a portion of the proceeds from our Secondary Offering.

The loan bore an annual interest rate equal to the prime rate plus 6.25% (9.50% at September 30, 2013). We accrued a fee due to Pecora and NNJCA of $130,000 of which $32,667 was paid upon conversion of the notes and the remaining balance paid on August 19, 2013.

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On May 19, 2006, we issued a convertible promissory note in favor of our Chairman and founder, Dr. Chaganti, the holder, which obligated us to pay the holder the sum of $100,000, together with interest at the rate of 8.5% per annum, due April 1, 2014. Interest expense for the nine months ended September 30, 2013 and 2012 totaled $2,357 and $6,300, respectively. (see Note 4 for additional information regarding the conversion of the promissory note into common stock concurrent with our IPO on April 10, 2013.). Pursuant to a consulting and advisory agreement, Dr. Chaganti also received options to purchase a total of 36,000 shares of common stock at price of $10.00 per share which vested over a two year period. Total non-cash stock-based compensation recognized under the consulting agreement for the nine months ended September 30, 2013 and 2012 were $76,220 and $367,050, respectively. Additionally, we entered into a three-year consulting agreement with Dr. Chaganti expiring on September 30, 2013 pursuant to which Dr. Chaganti received $5,000 per month for providing consulting and technical support services. Total expenses for each of the nine month periods ended September 30, 2013 and 2012 were $45,000.

On August 15, 2010, we entered into a two-year consulting agreement with Dr. Pecora, a member of our board of directors, pursuant to which Dr. Pecora received $5,000 per month for providing consulting and advisory services. Dr. Pecora also received stock options under the consulting and advisory agreement to purchase a total of 12,000 shares of common stock at price of $10.00 per share which vested over a two year period. The cash component of this agreement was terminated by mutual consent in 2011. Total non-cash stock-based compensation recognized under the consulting agreement for the nine months ended September 30, 2013 and 2012 were $0 and $142,740, respectively.

In August 2010, we entered into a consulting agreement with Equity Dynamics, Inc., an entity controlled by John Pappajohn, pursuant to which Equity Dynamics, Inc. receives a monthly fee of $10,000 plus reimbursement of expenses. Total consulting fees for each of the nine month periods ended September 30, 2013 and 2012 were $90,000. As of September 30, 2013, we owed Equity Dynamics, Inc. $20,000.

Note 13. Contingencies

In the normal course of business, the Company may become involved in various claims and legal proceedings. In the opinion of management, the ultimate liability or disposition thereof is not expected to have a material adverse effect on our financial condition, results of operations, or liquidity.

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

As used herein, the Company, we, us, our or similar terms, refer to Cancer Genetics, Inc. and its wholly owned subsidiary, Cancer Genetics Italia, S.R.L. except as expressly indicated or unless the context otherwise requires. The following Management s Discussion and Analysis of Financial Condition and Results of Operations (MD&A) is intended to help facilitate an understanding of our financial condition and our historical results of operations for the periods presented. This MD&A should be read in conjunction with the accompanying unaudited consolidated financial statements and the audited consolidated financial statements and notes thereto included in our Prospectus filed with the SEC pursuant to Rule 424 (b) under the Securities Exchange Act of 1933. This MD&A may contain forward-looking statements that involve risks and uncertainties. See Forward-Looking Statements below.

Overview

We are an early-stage diagnostics company focused on developing and commercializing proprietary genomic tests and services to improve and personalize the diagnosis, prognosis and response to treatment (theranosis) of cancer. Our proprietary tests target cancers that are complicated to prognose and for which it is difficult to predict treatment outcomes using currently available mainstream techniques. These cancers include hematological, urogenital and HPV-associated cancers. We provide our proprietary tests and services along with a comprehensive range of non-proprietary oncology-focused tests and laboratory services, to oncologists and pathologists at hospitals, cancer centers, reference laboratories and physician offices, as well as to biopharmaceutical companies and clinical research organizations for their clinical trials. To date, we have engaged in only limited sales and marketing activities and have generated most of our revenue through sales of our non-proprietary testing services to a limited number of oncologists, pathologists, community hospitals and biotechnology and pharmaceutical companies located mostly in the eastern and midwestern United States. Our non-proprietary laboratory testing services include molecular testing, sequencing, mutational analysis, flow cytometry testing, histology testing and cytology testing. We are currently offering our tests and laboratory services in our 17,936 square foot state-of-the-art laboratory located in Rutherford, New Jersey, which has been accredited by the College of American Pathologists, which is one of nine approved accreditation methods under the Clinical Laboratory Improvement Amendments of 1988 (CLIA), to perform high complexity testing.

Our proprietary tests are based principally on our expertise in specific cancer types, test development methodologies and proprietary algorithms correlating genetic events with disease specific information. We have commercially launched MatBA®-CLL, our first proprietary microarray test for chronic lymphocytic leukemia (CLL) for use in our CLIA-accredited clinical laboratory. In January 2012, we received CLIA approval for MatBA®-SLL, our proprietary microarray for risk stratification in small lymphocytic lymphoma (SLL), and we are currently offering MatBA®-SLL in our laboratory. In February 2013, we received CLIA approval for MatBA®-DLBCL, our proprietary microarray for diagnosis, prognosis and patient monitoring in diffuse large B cell lymphoma (DLBCL). In May 2013, we commercially launched UroGenRA™, our proprietary microarray for the diagnosis and prognosis of patients with kidney cancer for use in our CLIA-accredited clinical laboratory. We have also launched FHACT for cervical cancer outside the United States. In addition, we are developing a series of other proprietary genomic tests in our core oncology markets. Due to the recent introduction of these proprietary tests, the small numbers involved in our revenues, and the variability expected with the adoption of any new tests, no assurance or prediction can be given with respect to the level of revenues from our proprietary tests in the future.

We have established collaborative relationships with key thought leaders in oncology, which enable us to develop and validate the effectiveness and utility of our tests in a clinical setting and which provide us access to clinically-robust patient data. For example, we formed a joint venture in May 2013 with Mayo Foundation for Medical Education and Research which will focus on developing oncology diagnostic services and tests utilizing next-generation sequencing. Additionally, we agreed to a research collaboration with Memorial Sloan-Kettering Cancer Center and the Cleveland Clinic to validate our renal-cancer microarray, UroGenRA -Renal.

The non-proprietary testing services we offer are entirely focused on specific oncology categories where we are developing our proprietary arrays and probe panels. We believe that there is significant synergy in developing and marketing a complete set of tests and services that are disease-focused and delivering those tests and services in a comprehensive manner to help with treatment decisions. The insight that we develop in delivering the non-proprietary services are often leveraged in the development of our proprietary programs and now increasingly in the validation of our proprietary programs (such as MatBA®) for clinical use.

We believe that we can be successful by offering cancer professionals a fully-integrated menu of oncology-focused proprietary and non-proprietary tests and customized laboratory services. Based on our discussions with leading researchers in the oncology field and interactions with our collaborators, as well as information we learn through performing the non-proprietary genetic diagnostic testing services, which are focused on the specific oncology categories where we are developing our proprietary tests, we believe our proprietary tests provide superior diagnostic and prognostic values than currently available tests. In particular, our proprietary tests deliver a level of genomic information not provided by other currently available tests. For example, the majority of current cytogenetic analysis for CLL and SLL that is available in clinical laboratories today assesses gain and loss in genomic material at four specific sites. There are two other marketed arrays for CLL (GenPath/Bioreference Laboratories and Quest) of which we are aware. Both of these arrays report out gains and losses at four to five genomic

sites. MatBA®-CLL, on the other hand, is designed to report out gains and losses at twenty

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genomic sites and MatBA®-SLL can report out gains and losses at thirteen genomic sites. We believe our ability to rapidly translate research insights about the genetics and molecular mechanisms of cancer into the clinical setting will improve patient treatment and management and that this approach will become a key component in the standard of care for personalized cancer treatment.

We will offer our proprietary tests in the United States as laboratory developed tests (LDTs) and internationally as CE-marked in vitro diagnostic products. In addition, as part of our long-term strategy we plan to seek Food and Drug Administration (FDA) clearance or approval to expand the commercial use of our tests to other laboratories and testing sites. We believe it would likely take two years or more to conduct the studies and trials necessary to obtain approval from FDA to commercially launch our propriety tests outside of our clinical laboratory. Our sales strategy is focused on direct sales to oncologists and pathologists at hospitals, cancer centers, and physician offices in the United States and expanding our relationships with leading distributors and medical facilities in emerging markets. We intend to emphasize partnering with community hospitals, where nearly 85% of all cancers are initially diagnosed, through our program called Expand Dx , which was specifically designed to meet the needs of community hospitals. We believe our proprietary tests and services will enable community hospitals to optimize and expand their oncology services to better serve their cancer patients.

We expect to continue to incur significant losses for the near future. We incurred losses of $6.7 million and $19.9 million for fiscal years ended December 31, 2012 and 2011, respectively. As of September 30, 2013, we had an accumulated deficit of $58.8 million. Changes in fair value of some of our common stock warrants have significantly impacted our results in recent periods. In particular, changes in the fair value of some of our common stock warrants accounted for a large portion of our losses in 2011 and 2010, whereas in 2012 and for the nine months ended September 30, 2013 we recognized non-cash income as a result of the change in fair value of such warrants. Accounting rules require us to record certain of our warrants as a liability, measure the fair value of these warrants each quarter and record changes in that value in earnings. Consequently, we may be exposed to non-cash charges, or we may record non-cash income, as a result of this warrant exposure in future periods. During 2012 we borrowed additional funds and restructured certain of our outstanding debt obligations, and issued additional warrants to our debt holders. As a result of these borrowings and restructurings, we incurred a significant one-time, non-cash debt and warrant restructuring charge and increased interest expense in 2012 and may incur additional non-cash income or expense related to our outstanding warrants in future periods.

For the nine months ended September 30, 2013, the change in the fair value of our warrant liability resulted in $4.1 million in non-cash income. The fair market value of certain of our outstanding common stock warrants that we are required to account for as liabilities decreased during the nine months ended September 30, 2013. The decrease principally resulted from a shareholder, Mr. John Pappajohn, limiting certain anti-dilution rights in his warrants to purchase shares of the Company s common stock resulting in a lower fair value of the warrant liability and non-cash income during this period.

On April 10, 2013, we completed our IPO. In connection with the IPO, $9.6 million of debt was converted into common stock at the IPO price of $10.00 per share. In connection with the conversion of debt into common stock, we expensed the applicable remaining debt discounts of $3.5 million, financing fees of $419,000 and a contingently recognizable beneficial conversion feature in the converted debt of $3.0 million.

On August 19, 2013, we sold 1,500,000 shares of common stock at a public offering price of $10.00 per share resulting in gross proceeds of $15.0 million (net proceeds of $13.3 million). We used $3.5 million of the proceeds to repay certain indebtedness which was due on August 15, 2013 (see Note 4 for further discussion of the Company s debt). On September 5, 2013, we sold 105,000 additional common shares pursuant to partial exercise of the underwriter s over-allotment option which resulted in gross proceeds of $1.1 million (net proceeds of $947,000).

On October 28, 2013, we sold 3,286,700 shares of common stock, (including the underwriter s overallotment of 428,700 shares), at a public offering price of $14.00 per share resulting in gross proceeds of $46.0 million (net proceeds of $42.2 million).

Key Factors Affecting our Results of Operations and Financial Condition

Our overall long-term growth plan is predicated on our ability to develop and commercialize our proprietary tests outside of our clinical laboratory and to increase comprehensive oncology testing volumes in our laboratory. We launched MatBA®-CLL in the first quarter 2011 for use in our clinical laboratory, we received CLIA approval for MatBA®-SLL in January 2012, we received CLIA approval for MatBA®-DLBCL in February 2013, we commercially launched UroGenRA™ in May 2013 for use in our clinical laboratory and we are developing additional proprietary tests. In order to market our tests to independent laboratories and testing facilities, we believe we will need to obtain approvals or clearances from the appropriate regulatory authorities, including FDA. Without these approvals, the success of these commercialization efforts will be limited. To obtain these approvals and facilitate market adoption of our proprietary tests, we anticipate having to successfully complete additional studies with clinical samples and publish our results in peer-reviewed scientific journals. Our ability to complete such studies is dependent upon our ability to leverage our collaborative relationships with leading institutions to facilitate our research and obtain data for our quality assurance and test validation efforts.

We believe that the factors discussed in the following paragraphs have had and are expected to continue to have a material impact on our results of operations and financial condition.

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Revenues

Our revenue in 2013 was generated principally through our clinical laboratory services, with approximately 3% of our revenue from sales of our DNA probes, which are only sold outside the United States and approximately 2% of our revenue from government research grants such as the National Cancer Institute. The clinical laboratory industry is highly competitive, and our relationship with the decision-maker at hospitals, cancer centers or physician offices is a critical component of securing their business. Consequently, our ability to attract and maintain productive sales personnel that have and can grow these relationships will largely determine our ability to grow our clinical services revenue. In order to grow our clinical laboratory revenue, we must continue to pursue validation studies and work with oncology thought leaders to develop data that is helpful in supporting the need for our tests and services.

Due to the early stage nature of our business and our limited sales and marketing activities to date, we have historically derived a significant portion of our revenue from a limited number of test ordering sites, although the test ordering sites that generate a significant portion of our revenue have changed from period to period. Our test ordering sites are largely hospitals, cancer centers, reference laboratories and physician offices, as well as biopharmaceutical companies as part of a clinical trial. Oncologists and pathologists at these sites order the tests on behalf of the needs of their oncology patients or as part of a clinical trial sponsored by a biopharmaceutical company in which the patient is being enrolled. The loss of any one of these test ordering sites would not materially adversely affect our results of operations. The top five test ordering sites during the nine months ended September 30, 2013 and 2012 accounted for 71% and 61%, respectively, of our clinical testing volumes, with 37% and 47%, respectively, of the volume coming from community hospitals. During the nine months ended September 30, 2013, there was one site which accounted for more than 10% of our revenue: a clinical trial client accounted for approximately 40% of our revenue. During the nine months ended September 30, 2012, there were three sites which each accounted for approximately 10% or more of our clinical revenue: a university teaching center accounting for approximately 15%; a clinical trial client accounted for approximately 12%, and; a community hospital accounted for approximately 11%. The top five test ordering sites during the three months ended September 30, 2013 and 2012 accounted for 75% and 61% respectively, of our clinical testing volumes, with 36% and 56% respectively, of the volume coming from community hospitals. During the three months ended September 30, 2013, there were two sites which accounted for more than 10% of our revenue: a clinical trial client accounted for approximately 44% of our revenue, and; a community hospital accounted for approximately 10%. During the three months ended September 30, 2012, there were three sites which each accounted for 10% or more of our clinical revenue: a clinical trial client accounted for approximately 15%; a university teaching center accounting for approximately 12%, and; a community hospital network accounted for approximately 10%.

We receive revenue for our clinical laboratory services from private insurance carriers and other non-Medicare payors (such as unions and self-insured plans), Medicare, direct bill customers, and grants. Direct bill customers are institutions that choose, generally at the beginning of our relationship, to pay for our laboratory services directly, as opposed to having patients (or their insurers) pay for those services and providing us with the patients insurance information. For instance, bio-pharmaceutical companies generally are direct bill customers. A hospital may elect to be a direct bill customer, and pay our bills directly, or may provide us with patient information so that their patients pay our bills, in which case we generally look to payment from their private insurance carrier or Medicare. In a few instances, we have arrangements where a hospital may have two accounts with us, so that certain tests are direct billed to the hospital, and certain tests are billed to and paid by a patient s insurer. The billing arrangements generally are dictated by our customers and in accordance with state and federal law. For the nine months ended September 30, 2013, private insurance accounted for approximately 23% of our total revenue, Medicare accounted for approximately 13% of our total revenue, direct bill clients accounted for 59% of our total revenue and the balance of our revenue was attributable to grants and sales of our DNA probes. As we expand our portfolio of tests and services, our sales activities and our ExpandDX program, we expect the percentage of revenue from direct-bill customers may decrease over the long term. However, during 2012 we started working with a community hospital that preferred the direct bill model and a new direct bill clinical trial services customer, which resulted in a significant increase in direct bill customers as a percentage of revenue for 2012. It is too early in our development to predict whether our experience during 2012 indicates a reversal in the trend we had seen in prior years or simply a variation as we attempt to expand our business and introduce new community hospitals, regional laboratories or clinical trial services customers in a particular period. On average, we generate less revenue per test from direct-bill customers than from other third-party payors but we also have reduced sales cost associated with direct bill clients and significantly reduced collections risk from direct-bill customers and have not experienced any significant collection issues or expenses as a result. Typically, we negotiate discounts in the range of 5% to 20% with direct bill clients depending on the volume of business in a twelve month period.

Cost of Revenues

Our cost of revenues consists principally of internal personnel costs, including stock-based compensation, laboratory consumables, shipping costs, overhead and other direct expenses, such as specimen procurement and third party validation studies. We are pursuing various strategies to reduce and control our cost of revenues, including automating our processes through more efficient technology, attempting to negotiate improved terms with our suppliers and exploring relocating our manufacturing operations to a lower cost-base country.

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Operating Expenses

We classify our operating expenses into three categories: research and development, sales and marketing, and general and administrative. Our operating expenses principally consist of personnel costs, including stock-based compensation, outside services, laboratory consumables and overhead, development costs, marketing program costs and legal and accounting fees.

Research and Development Expenses. We incur research and development expenses principally in connection with our efforts to develop our proprietary tests. Our primary research and development expenses consist of direct personnel costs, laboratory equipment and consumables and overhead expenses. We anticipate that research and development expenses will increase in the near-term, principally as a result of hiring additional personnel to develop and validate tests in our pipeline and to perform work associated with our research collaborations. In addition, we expect that our costs related to collaborations with research and academic institutions will increase. For example, we recently entered into an affiliation agreement to form a joint venture with the Mayo Foundation for Medical Education and Research. All research and development expenses are charged to operations in the periods they are incurred.

Sales and Marketing Expenses. Our sales and marketing expenses consist principally of personnel and related overhead costs for our sales team and their support personnel, travel and entertainment expenses, and other selling costs including sales collaterals and trade shows. We expect our sales and marketing expenses to increase significantly after we complete our initial public offering as we expand into new geographies and add new clinical tests and services.

General and Administrative Expenses. General and administrative expenses consist principally of personnel-related expenses, professional fees, such as legal, accounting and business consultants, occupancy costs, bad debt and other general expenses. We expect that our general and administrative expenses will increase as we expand our business operations. We further expect that general and administrative expenses will increase significantly due to increased information technology (IT), legal, insurance, accounting and financial reporting expenses associated with being a public company.

Seasonality

Our business experiences decreased demand during spring vacation season, summer months and the December holiday season when patients are less likely to visit their health care providers. We expect this trend in seasonality to continue for the foreseeable future.

Results of Operations

Three Months Ended September 30, 2013 and 2012

The following table sets forth certain information concerning our results of operations for the periods shown:

	Three Months Ended September 30,		Change	
	2013	**2012**	**$**	**%**
(dollars in thousands)				
Revenue	$ 1,705	$ 1,243	$ 462	37%
Cost of revenues	1,211	972	239	25%
Research and development expenses	433	501	(68)	(14%)
Sales and marketing expenses	443	334	109	33%
General and administrative expenses	1,298	1,146	152	13%
Total Operating Loss	**(1,680)**	**(1,710)**	**30**	**2%**
Interest expense, net	(353)	(1,312)	959	73%
Change in fair value of warrant liability	(1,033)	3,334	(4,367)	(131%)
(Loss) income before income taxes	**(3,066)**	**312**	**(3,378)**	**(1,083%)**
Income tax (benefit) expense				

Net (Loss) income	**$ (3,066)**	**$ 312**	**$ (3,378)**	**(1,083%)**

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Revenue

Revenue increased 37%, or $462,000, to $1.7 million for the three months ended September 30, 2013, from $1.2 million for the three months ended September 30, 2012, primarily due to an increase in test volume. Our average revenue (excluding grant revenue and probe revenue) per test decreased by 4% to $531 per test for the three months ended September 30, 2013, from $551 per test for the three months ended September 30, 2012, principally due to a decrease in the average revenue per test for tests reimbursed under Medicare. Our test volume increased by 71% to 2,920 for the three months ended September 30, 2013, from 1,704 for the three months ended September 30, 2012 due to an increase in tests performed for a significant clinical trials client. Grant revenue decreased $180,000 to $100,000 for the three months ended September 30, 2013, from the three months ended September 30, 2012, due to the completion of scheduled drawdowns.

Revenue from direct bill customers increased 124%, or $587,000, to $1.1 million for the three months ended September 30, 2013, from $474,000 for the three months ended September 30, 2012, principally due to an increase in revenue from a significant clinical trial client. Revenue from direct bill customers as a percentage of total revenue increased to 62% for the three months ended September 30, 2013, from 38% for the three months ended September 30, 2012. Revenue from private insurance carriers and other non-Medicare payors decreased 9%, or $27,000, to $260,000 for the three months ended September 30, 2013, from $287,000 for the three months ended September 30, 2012, principally due to a change in test mix. Revenue from private insurance carriers and other non-Medicare payors as a percentage of total revenue decreased to 15% of total revenue for the three months ended September 30, 2013, from 23% of total revenue for the three months ended September 30, 2012. Revenue from Medicare increased 29%, or $52,000, to $230,000 for the three months ended September 30, 2013, from $178,000 for the three months ended September 30, 2012, principally due to an increase in testing volume. Revenue from Medicare as a percentage of total revenue decreased to 13% for the three months ended September 30, 2013, from 14% for the three months ended September 30, 2012. Revenue from DNA probe sales by CGI Italia increased 130%, or $31,000, to $55,000 for the three months ended September 30, 2013, from $24,000 for the three months ended September 30, 2012, principally due to an increase in sales volume.

Cost of Revenues

Cost of revenues increased 25%, or $239,000, to $1.2 million for the three months ended September 30, 2013, from $1.0 million for the three months ended September 30, 2012, principally due to clinical supply costs related to higher test volumes. However, due to scaling efficiencies associated with performing a large amount of tests for a significant clinical trials client, costs did not increase proportionately relative to the increase in revenues.

Operating Expenses

Research and Development Expenses. Research and development expenses decreased 14%, or $68,000, to $433,000 for the three months ended September 30, 2013, from $501,000 for the three months ended September 30, 2012, principally as a result of a decrease in non-employee stock-based compensation related expenses of $91,000 and a decrease of $30,000 in employee compensation related expenses, both of which were partially offset by an increase in supplies expense of $76,000.

Sales and Marketing Expenses. Sales and marketing expenses increased 33%, or $109,000, to $443,000 for the three months ended September 30, 2013, from $334,000 for the three months ended September 30, 2012, principally due to an increase in headcount and compensation-related costs.

General and Administrative Expenses. General and administrative expenses increased 13%, or $152,000, to $1.3 million for the three months ended September 30, 2013, from $1.1 million for the three months ended September 30, 2012, principally due to an increase in professional fees of $255,000 as a result of being a public company, an increase of $89,000 in insurance costs coincident with the additional risk of a public company, both of which were partially offset by $144,000 related to non-cash expense incurred in 2012 in connection with the extension of Series A Preferred warrants and an $84,000 decrease in compensation expenses (resulting from the payout of bonuses in 2012).

Interest Income and Expense

Interest expense decreased 73%, or $1.0 million, to $353,000 for the three months ended September 30, 2013, from $1.3 million for the three months ended September 30, 2012. The decrease is attributable to the conversion of $9.6 million of debt into common stock which occurred concurrently with our IPO on April 10, 2013 and the repayment of $3.5 million in indebtedness in August 2013.

Change in Fair Value of Warrant Liability

The change in the fair value of our warrant liability resulted in $1.0 million in non-cash expense for the three months ended September 30, 2013, as compared to non-cash income of $3.3 million for the three months ended September 30, 2012. Certain of our outstanding common stock warrants, which we are required to account for as liabilities, are re-valued each quarter at amounts that

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correspond with changes in the value of our common stock. Concurrent with the IPO date of April 10, 2013, derivative warrants with a fair value of $7.2 million were reclassified into equity due to the lapsing of anti-dilution provisions in the warrants. Since the re-classification, future changes in the value of these particular warrants are no longer required to be recorded in our financial statements. Also since the re-classification, there are significantly less warrants that are subject to revaluation each quarter. During the three months ended September 30, 2013, the fair market value of the 95,130 remaining common stock warrants that are subject to revaluation increased as a consequence of an increase in our stock price and resulted in $1.0 million of non-cash expense during this period.

During the three months ended September 30, 2012, the fair market value of these common stock warrants decreased as a consequence of a decrease in our assumed stock price and resulted in $3.3 million of non-cash income during that period.

Results of Operations

Nine Months Ended September 30, 2013 and 2012

The following table sets forth certain information concerning our results of operations for the periods shown:

	Nine Months Ended September 30,		Change	
	2013	**2012**	**$**	**%**
(dollars in thousands)				
Revenue	$ 4,755	$ 3,226	$ 1,529	47%
Cost of revenues	3,560	2,880	680	24%
Research and development expenses	1,384	1,552	(168)	(11%)
Sales and marketing expenses	1,275	1,050	225	21%
General and administrative expenses	4,259	3,475	784	23%
Total Operating Loss	**(5,723)**	**(5,731)**	**8**	**0%**
Interest expense, net	(2,035)	(3,260)	1,225	38%
Debt conversion costs	(6,850)		(6,850)	n/a
Change in fair value of warrant liability	4,096	6,370	(2,274)	(36%)
Loss before income taxes	**(10,512)**	**(2,621)**	**(7,891)**	**(301%)**
Income tax (benefit) expense	(664)		(664)	n/a
Net loss	**$ (9,848)**	**$ (2,621)**	**$ (7,227)**	**(276%)**

Revenue

Revenue increased 47%, or $1.5 million, to $4.8 million for the nine months ended September 30, 2013, from $3.2 million for the nine months ended September 30, 2012, due to increases in test volume and average revenue per test. Our average revenue (excluding grant revenue and probe revenue) per test increased by 3% to $562 per test for the nine months ended September 30, 2013, from $545 per test for the nine months ended September 30, 2012, principally due to an increase in the average revenue per test attributable to clinical trial services. Our test volume increased by 63% to 8,035 for the nine months ended September 30, 2013, from 4,937 for the nine months ended September 30, 2012 principally due to an increase in tests performed for a significant clinical trials client. Grant revenue decreased $375,000 to $100,000 for the nine months ended September 30, 2013, from the nine months ended September 30, 2012, due to the completion of scheduled drawdowns.

Revenue from direct bill customers increased 142%, or $1.6 million, to $2.8 million for the nine months ended September 30, 2013, from $1.2 million for the nine months ended September 30, 2012, principally due to an increase in revenue from a significant clinical trials client. Revenue from direct bill customers as a percentage of total revenue increased to 59% for the nine months ended September 30, 2013, from 36% for the nine months ended September 30, 2012. Revenue from private insurance carriers and other non-Medicare payors increased 13%, or $125,000, to $1.1 million for the nine months ended September 30, 2013, from $946,000 for the nine months ended September 30, 2012, principally due to an increase in testing volume. Revenue from private insurance carriers and other non-Medicare payors as a percentage of total revenue decreased to 23% of total revenue for the nine months ended September 30, 2013, from 29% of total revenue for the nine months ended September 30, 2012. Revenue from Medicare increased 9%, or $51,000, to $638,000 for the nine months ended September 30, 2013, from $587,000 for the nine

months ended September 30, 2012, principally due to a higher number of Medicare reimbursed tests. Revenue from Medicare as a percentage of total revenue decreased to 13% for the nine months ended September 30, 2013, from 18% for the nine months ended September 30, 2012. Revenue from DNA probe sales by CGI Italia increased 147%, or $88,000, to $147,000 for the nine months ended September 30, 2013, from $60,000 for the nine months ended September 30, 2012, principally due to an increase in sales volume.

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Cost of Revenues

Cost of revenues increased 24%, or $680,000, to $3.6 million for the nine months ended September 30, 2013, from $2.9 million for the nine months ended September 30, 2012, principally due to clinical supply costs related to higher test volumes. However, due to scaling efficiencies associated with performing a large amount of tests for a clinical trials client, costs did not increase proportionately relative to the increase in revenues.

Operating Expenses

Research and Development Expenses. Research and development expenses decreased 11%, or $168,000, to $1.4 million for the nine months ended September 30, 2013, from $1.6 million for the nine months ended September 30, 2012, principally as a result of a decrease in non-employee stock-based compensation related expenses of $271,000 and a decrease of $204,000 in employee compensation related expenses, both of which were partially offset by an increase in supplies expense of $286,000.

Sales and Marketing Expenses. Sales and marketing expenses increased 21%, or $225,000, to $1.3 million for the nine months ended September 30, 2013, from $1.1 million for the nine months ended September 30, 2012, principally due to an increase in headcount and compensation-related costs.

General and Administrative Expenses. General and administrative expenses increased 23%, or $784,000 to $4.3 million for the nine months ended September 30, 2013, from $3.5 million for the nine months ended September 30, 2012, principally due to the write-off of $618,000 of deferred IPO costs and an increase of $244,000 in compensation and headcount-related expenses (including IPO bonuses paid in 2013 and stock-based compensation), an increase of $133,000 in insurance costs coincident with the additional risk of a public company, and an increase of $136,000 professional fees as a result of being a public company. These increases were partially offset by a decrease of $350,000 for the legal settlement which was recorded in the prior year period.

Interest Income and Expense

Interest expense decreased 38%, or $1.2 million, to $2.0 million for the nine months ended September 30, 2013, from $3.3 million for the nine months ended September 30, 2012. The decrease is attributable to the conversion of $9.6 million of debt into common stock which occurred concurrently with the closing of our IPO on April 10, 2013 and the repayment of $3.5 million in indebtedness in August 2013.

Debt Conversion Costs

On April 10, 2013, we completed our IPO. In connection with the IPO, $9.6 million of debt was converted into common stock at the IPO price of $10.00 per share. In connection with the conversion of debt into common stock, we expensed the applicable remaining debt discounts of $3.5 million, financing fees of $419,000 and a contingently recognizable beneficial conversion feature in the converted debt of $3.0 million, the total of which resulted in a $6.9 million write-off.

Change in Fair Value of Warrant Liability

The change in the fair value of our warrant liability resulted in $4.1 million in non-cash income for the nine months ended September 30, 2013, as compared to non-cash income of $6.4 million for the nine months ended September 30, 2012. The fair market value of certain of our outstanding common stock warrants, that we are required to account for as liabilities, decreased during the period from December 31, 2012 through September 30, 2013, and principally resulted from a shareholder, Mr. John Pappajohn, limiting certain anti-dilution rights in his warrants to purchase shares of the Company s common stock, resulting in a lower fair value of the warrant liability and non-cash income during this period. Concurrent with the IPO on April 10, 2013, derivative warrants with a fair value of $7.2 million were reclassified into equity due to the lapsing of anti-dilution provisions in the warrants. Since the re-classification, future changes in the value of these specific warrants are no longer required to be recorded in our financial statements although there are 95,130 warrants that are still subject to future revaluation.

During the nine months ended September 30, 2012, the fair market value of these common stock warrants decreased as a consequence of a decrease in our stock price and resulted in $6.4 million of non-cash income during this period.

Income Taxes

During the nine months ended September 30, 2013, we received $664,000 in cash for the sale of certain state NOL carryforwards.

Liquidity and Capital Resources

Sources of Liquidity

Our primary sources of liquidity have been funds generated from our debt financings and equity financings. In addition, we have generated funds from the following sources: (i) the grants received in lieu of federal income tax credits under the Qualifying Therapeutic Discovery Project Program; (ii) grants from the National Institutes of Health and (iii) cash payments generated from operations.

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During January 2013, we received $664,000 in cash in from sales of state NOL s.

On April 10, 2013, we sold 690,000 shares of common stock at a public offering price of $10.00 per share and completed our IPO with net proceeds of $5 million. Upon the closing of the IPO, all shares of our then-outstanding Series A and Series B convertible preferred stock automatically converted into an aggregate of 1,287,325 shares of common stock. Concurrent with the IPO, certain derivative warrants with a fair value of $7.2 million were reclassified into equity due to the lapsing of anti-dilution provisions in the warrants. Also concurrent with the IPO, $9.6 million of debt converted into 963,430 shares of common stock. Refer to Notes 1, 4 and 6 to the Consolidated Financial Statements accompanying this filing.

On April 29, 2013, the Company received $96,000 from shareholders who exercised warrants to purchase 24,000 shares of common stock at $4.00 per share.

On July 8, 2013, the Company received $96,000 from shareholders who exercised warrants to purchase 24,000 shares of common stock at $4.00 per share.

On August 19, 2013, we sold 1,500,000 shares of common stock at a public offering price of $10.00 per share which resulted in gross proceeds of $15.0 million ($13.3 million of net proceeds after offering expenses and underwriting discounts). On September 5, 2013, we sold 105,000 additional common shares pursuant to the underwriter s partial exercise of the over-allotment option which resulted in gross proceeds of $1.1 million ($947,000 of net proceeds after offering expenses and underwriting discounts). Upon completion of the Secondary Offering we repaid indebtedness in the aggregate principal amount of $3.5 million plus accrued interest to DAM and to one of our directors, Andrew Pecora, and an affiliated company NJCCA, all of which indebtedness was due on August 15, 2013.

On October 28, 2013, we sold 3,286,700 shares of common stock, (including the underwriter s overallotment of 428,700 shares), at a public offering price of $14.00 per share resulting in gross proceeds of $46.0 million (net proceeds of $42.2 million).

Following our IPO, Secondary Offering, and the related debt repayments, we have the following credit facility outstanding:

Wells Fargo Line of Credit. In April 2008, we entered into and thereafter fully utilized a line of credit with Wells Fargo in the amount of $1.5 million for the purposes of meeting operating expenses and working capital needs. In July 2008, we increased the line of credit with Wells Fargo to $3.5 million. In March 2009, we increased the facility to $4.5 million. In July 2009, we increased the facility to $5.5 million and in October 2009, we increased the facility to $6.0 million, which we have fully utilized. In July 2010, we extended the maturity date of the facility from July 31, 2010 to July 31, 2011. In June 2011, we extended the maturity date on the facility to July 31, 2012. In February 2012, we extended the maturity date of the facility to July 31, 2013. In October 2012, we extended the maturity date to April 1, 2014. The interest is computed at LIBOR + 1.75%, which was 2.0% as of December 31, 2012. Mr. Pappajohn, a member of our board of directors, has guaranteed the Wells Fargo Line of Credit.

In general, our primary uses of cash are providing for working capital purposes (which principally represent payroll costs, the purchase of supplies, rent expense and insurance costs) and servicing debt. Our largest source of operating cash flow is cash collections from our customers.

Cash Flows

Our net cash flow from operating, investing and financing activities for the periods below were as follows:

	Nine Months Ended September 30	
(in thousands)	**2013**	**2012**
	(unaudited)	
Cash provided by (used in):		
Operating activities	$ (6,601)	$ (5,763)
Investing activities	(176)	(268)
Financing activities	15,835	4,517
Net increase (decrease) in cash and cash equivalents	$ 9,058	$ (1,514)

We had cash and cash equivalents of $9.9 million at September 30, 2013, and $820,000 at December 31, 2012.

The $9.1 million increase in cash and cash equivalents for the nine months ended September 30, 2013, was principally the result of the receipt of $5.0 million in proceeds received in our IPO on April 10, 2013 and the receipt of $14.2 in net proceeds from our Secondary Offering offset by $6.6 million of net cash used in operations and the repayment of $3.5 million in indebtedness.

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The $1.5 million decrease in cash and cash equivalents from December 31, 2011, to September 30, 2012, was principally the result of our $5.8 million net cash used in operations and $1.2 million of cash used in financing activities for offering costs offset by $5.7 million in net proceeds from borrowings under new notes payable and warrant exercises.

Cash Used in Operating Activities

Net cash used in operating activities was $6.6 million for the nine months ended September 30, 2013. We used $4.9 million in net cash to run our core operations, which included $571,000 in cash paid for interest. We incurred additional uses of cash as follows: $1.3 for a net decrease in accounts payable, accrued expenses and deferred revenue; $224,000 to increase other current assets which included prepayments for our insurance policies as well as prepayments for consumables and other supplies used to run our operations, and; accounts receivable increased by $766,000. All of these uses of cash were partially offset by the receipt of $664,000 from the sale of certain state NOL carryforwards in January, 2013.

Net cash used in operating activities was $5.8 million for the nine months ended September 30, 2012, consisting primarily of a $2.6 million net loss during the period, which includes $761,000 in cash interest payments, and non-cash income from a change in fair value of warrant liability of $6.4 million offset by non-cash debt costs of $2.5 million and $900,000 in equity and warrant-based non-cash compensatory transactions.

Cash Used in Investing Activities

Net cash used in investing activities was $176,000 for the nine months ended September 30, 2013 and principally resulted from: purchases of fixed assets of $73,000; an increase in our restricted cash related to a $50,000 increase in the Letter of Credit related to our lease; and $53,000 in patent application costs.

Net cash used in investing activities was $268,000 for the nine months ended September 30, 2012 due to an increase in our restricted cash related to a $50,000 increase in the Letter of Credit related to our lease as well as $184,000 in patent application costs.

Cash Provided by Financing Activities

Net cash provided by financing activities was $15.8 million for the nine months ended September 30, 2013, and primarily consisted of the receipt of $19.2 million in net proceeds raised in our IPO and Secondary Offering offset by the repayment of $3.5 million in indebtedness.

Net cash provided by financing activities was $4.5 million for the nine months ended September 30, 2012, principally due to our receipt of $5.1 million in net proceeds from the December 2011 financing transaction which closed in February 2012 and $620,000 in net proceeds from the exercise of certain warrants. We paid $1.2 million in equity issuance costs related to our IPO in the nine months ended September 30, 2012.

Capital Resources and Expenditure Requirements

We expect to continue to incur substantial operating losses in the future. It may take several years, if ever, to achieve positive operational cash flow. Until we can generate a sufficient amount of revenues to finance our cash requirements, which we may never do, we will need to continue to raise additional capital to fund our operations.

To augment our cash position, in August and September of 2013 we sold 1,605,000 shares of common stock in our Secondary Offering at a price of $10.00 per share for net proceeds of $14.2 million. Upon completion of the Secondary Offering we repaid indebtedness in the aggregate principal amount of $3.5 million plus accrued interest. In addition, on October 28, 2013, we sold 3,286,700 shares of common stock, (including the underwriter s overallotment of 428,700 shares), at a public offering price of $14.00 per share resulting in gross proceeds of $46.0 million (net proceeds of $42.2 million).

We believe our cash resources, prior to our latest offering of common stock, which was consummated on October 28, 2013, were sufficient to satisfy our liquidity requirements at our current level of operations through September 2014 and assuming we are able to secure an extension of the $6.0 million of indebtedness due April 1, 2014 through March 2015. We have commenced negotiations with Wells Fargo and with Mr. Pappajohn, who serves as a guarantor for such outstanding indebtedness, to further extend the maturity date. However, there can be no assurances that we will be successful. If we are not successful in obtaining an extension, we expect that we would use a portion of the net proceeds received from our latest offering of common stock, which was consummated on October 28, 2013, to repay that debt. Including the funds raised through the offering of common stock which was consummated on October 28, 2013, we believe that our current cash resources are sufficient to satisfy our liquidity requirements for at least two years even if we are unable to secure an extension of the Wells Fargo debt.

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We expect our operating expenses, particularly those relating to sales and marketing, to increase as we use a portion of the net proceeds received from our latest offering of common stock, which was consummated on October 28, 2013, to hire additional sales and marketing personnel and increase sales and marketing activities.

Our forecast of the period of time through which our current financial resources will be adequate to support our operations and the costs to support our general and administrative, sales and marketing and research and development activities are forward-looking statements and involve risks and uncertainties. Actual results could vary materially and negatively as a result of a number of factors, including:

- our ability to secure financing and the amount thereof;
- the timing of and the costs involved in obtaining regulatory approvals and clearances for our tests;
- the costs of operating and enhancing our laboratory facilities;
- if our new diagnostic tests are approved, our commercialization activities;
- the scope, progress and results of our research and development programs;
- the scope, progress, results, costs, timing and outcomes of the clinical trials of our diagnostic tests;
- our ability to manage the costs for manufacturing our microarrays and probes;
- the costs of maintaining, expanding and protecting our intellectual property portfolio, including potential litigation costs and liabilities;
- our ability to obtain adequate reimbursement from governmental and other third-party payors for our tests and services;
- revenues received from sales of our tests, if approved by FDA and accepted by the market;
- the costs of additional general and administrative personnel, including accounting and finance, legal and human resources, as a result of becoming a public company;
- the costs of developing our anticipated internal sales, marketing and distribution capabilities;
- our ability to collect revenues; and
- other risks discussed in the section entitled Risk Factors .

We expect that our operating expenses and capital expenditures will increase in the future as we expand our business. We plan to increase our sales and marketing headcount to promote our new clinical tests and services and to expand into new geographies and to increase our research and development headcount to develop and validate the proprietary tests currently in our pipeline, to expand our pipeline and to perform work associated with our research collaborations. We also expect that our costs of collaborations with research and academic institutions will increase in the future as such institutions begin to view us as a commercial company. For example, in 2011 we entered into an affiliation agreement to form a joint venture with the Mayo Foundation for Medical Education and Research pursuant to which we made an initial $1.0 million capital contribution in October 2013 and expect to make additional capital contributions of up to $5.0 million over the next two and a half years, of which $4.0 million is subject to the joint venture entity s achievement of certain operational milestones. Until we can generate a sufficient amount of revenues to finance our cash requirements, which we may never do, we may need to raise additional capital to fund our operations.

We may raise additional capital to fund our current operations, to repay certain outstanding indebtedness and to fund expansion of our business to meet our long-term business objectives through public or private equity offerings, debt financings, borrowings or strategic partnerships coupled with an investment in our company or a combination thereof. If we raise additional funds through the issuance of convertible debt securities, or other debt securities, these securities could be secured and could have rights senior to those of our common stock. In addition, any new debt incurred by the Company could impose covenants that restrict our operations. The issuance of any new equity securities will also dilute the interest of our current stockholders. Given the risks associated with our business, including our unprofitable operating history and our ability to develop additional proprietary tests, additional capital may not be available when needed on acceptable terms, or at all. If adequate funds are not available, we will need to curb our expansion plans or limit our research and development activities, which would have a material adverse impact on our business prospects and results of operations.

Income Taxes

Over the past several years we have generated operating losses in all jurisdictions in which we may be subject to income taxes. As a result, we have accumulated significant net operating losses and other deferred tax assets. Because of our history of losses and the uncertainty as to the realization of those deferred tax assets, a full valuation allowance has been recognized. We do not expect to report a provision for income taxes until we have a history of earnings, if ever, that would support the realization of our deferred tax assets.

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Off-Balance Sheet Arrangements

Since inception, we have not engaged in any off balance sheet activities as defined in Item 303(a)(4) of Regulation S-K.

Critical Accounting Policies and Significant Judgment and Estimates

Our management s discussion and analysis of financial condition and results of operations is based on our consolidated financial statements, which have been prepared in accordance with U.S. GAAP. The preparation of our consolidated financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue and expenses and related disclosure of contingent assets and liabilities. On an ongoing basis, we evaluate our estimates based on historical experience and make various assumptions, which management believes to be reasonable under the circumstances, which form the basis for judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

Section 107 of the JOBS Act provides that an emerging growth company can take advantage of the extended transition period provided in Section 7(a)(2)(B) of the Securities Act for complying with new or revised accounting standards. In other words, an emerging growth company can delay the adoption of certain accounting standards until those standards would otherwise apply to private companies. However, we are choosing to opt out of such extended transition period, and as a result, we will comply with new or revised accounting standards on the relevant dates on which adoption of such standards is required for non-emerging growth companies. Section 107 of the JOBS Act provides that our decision to opt out of the extended transition period for complying with new or revised accounting standards is irrevocable.

The notes to our audited consolidated financial statements, which are included in our Prospectus, contain a summary of our significant accounting policies. We consider the following accounting policies critical to the understanding of the results of our operations:

Revenue recognition;

Accounts receivable and bad debts;

Stock-based compensation; and

Warrant liability.

Forward-Looking Statements

Forward-looking statements include all statements that are not historical facts. In some cases, you can identify forward-looking statements by terms such as may, will, should, could, would, expects, plans, anticipates, believes, estimates, projects, predicts, poten those terms, and similar expressions and comparable terminology intended to identify forward-looking statements. These statements reflect our current views with respect to future events and are based on assumptions and subject to risks and uncertainties including those set forth below under Part II, Item 1A, Risk Factors in this quarterly report on Form 10-Q. Given these uncertainties, you should not place undue reliance on these forward-looking statements. These forward-looking statements represent our estimates and assumptions only as of the date of this quarterly report on Form 10-Q and, except as required by law, we undertake no obligation to update or review publicly any forward-looking statements, whether as a result of new information, future events or otherwise after the date of this quarterly report on Form 10-Q. You should read this quarterly report on Form 10-Q and the documents referenced in this quarterly report on Form 10-Q and filed as exhibits completely and with the understanding that our actual future results may be materially different from what we expect. We qualify all of our forward-looking statements by these cautionary statements. Such statements may include, but are not limited to, statements concerning the following:

our ability to achieve profitability by increasing sales of our laboratory tests and services and to continually develop and commercialize novel and innovative genomic-based diagnostic tests and services for cancer patients;

our ability to raise additional capital to meet our liquidity short-term and long-term liquidity needs;

our ability to clinically validate our pipeline of genomic microarray tests currently in development;

our ability to execute on our marketing and sales strategy for our genomic tests and gain acceptance of our tests in the market;

our ability to keep pace with a rapidly advancing market;

our ability to satisfy U.S. (including FDA) and international regulatory requirements with respect to our tests and services, many of which are new and still evolving;

our ability to obtain reimbursement from governmental and other third-party payors for our tests and services;

competition from clinical laboratory services companies, genomic-based diagnostic tests currently available or new tests that may emerge;

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our ability to maintain our clinical collaborations and enter into new collaboration agreements with highly regarded organizations in the cancer field so that, among other things, have access to thought leaders in the field and to a robust number of samples to validate our genomic tests;

our ability to maintain our present customer base and retain new customers;

potential product liability or intellectual property infringement claims;

our dependency on third-party manufacturers to supply or manufacture our products;

our ability to attract and retain a sufficient number of scientists, clinicians, sales personnel and other key personnel with extensive experience in oncology, who are in short supply;

our ability to obtain or maintain patents or other appropriate protection for the intellectual property in our proprietary tests and services;

our dependency on the intellectual property licensed to us or possessed by third parties;

our ability to expand internationally and launch our tests in emerging markets, such as India and Brazil; and

our ability to adequately support future growth

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Our exposure to market risk is limited to our cash, cash equivalents and marketable securities, all of which have maturities of one year or less. The goals of our investment policy are preservation of capital, fulfillment of liquidity needs and fiduciary control of cash and investments. We also seek to maximize income from our investments without assuming significant risk. To achieve our goals, we maintain a portfolio of cash equivalents and investments in a variety of securities that management believes to be of high credit quality. The securities in our investment portfolio are not leveraged, are classified as available for sale and are, due to their short-term nature, subject to minimal interest rate risk. We currently do not hedge interest rate exposure. Because of the short-term maturities of our investments, we do not believe that an increase in market rates would have a material negative impact on the value of our investment portfolio.

We do not have any material foreign currency exposure.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed by the issuer in the reports that it files or submits under the Securities Exchange Act of 1934, as amended (the Exchange Act) is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission s rules and forms, and that such information is accumulated and communicated to the issuer s management, including the principal executive officer and principal financial officer, or persons performing similar functions, as appropriate, to allow timely decisions regarding required disclosure. Any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. As of September 30, 2013,

we carried out an evaluation, under the supervision and with the participation of our management, including our principal executive officer and our principal financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended. Based on this evaluation, our principal executive officer and our principal financial officer concluded that our disclosure controls and procedures were effective at the reasonable assurance level as of September 30, 2013.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the three months ended September 30, 2013 that have materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

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PART II OTHER INFORMATION

Item 1. Legal Proceedings

None.

Item 1A. Risk Factors

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part II, Item 1A. Risk Factors in our Quarterly Report on Form 10-Q for the six months ended June 30, 2013, which could materially affect our business, financial condition or future results. The risks described in our Quarterly Report on Form 10-Q may not be the only risks facing the Company. Additional risks and uncertainties not currently known to the Company or that the Company currently deems to be immaterial also may materially adversely affect the Company s business, financial condition and/or operating results.

Except as set forth below, there were no material changes to the risk factors previously disclosed in our Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on August 5, 2013.

Risks Relating to Our Financial Condition and Common Stock

There has been a limited trading market for our common stock.

We only recently received approval to list our common stock on The NASDAQ Capital Market. Prior to August 2013, our common stock had been quoted on the OTCQB, and prior to our initial public offering in April 2013, there was no trading activity in our common stock. Although the NASDAQ listing improved the liquidity of our common stock, such listing has been of limited duration and no assurance can be given that recent levels of trading activity will continue. A lack of an active market may impair our stockholders ability to sell shares of our common stock at the time such shareholders wish to sell them or at a price that they consider reasonable. The lack of an active market may also reduce the fair market value of our common stock. An inactive market may also impair our ability to raise capital by selling shares of capital stock and may impair our ability to acquire other companies or technologies by using our common stock as consideration.

Our failure to meet the continued listing requirements of The NASDAQ Capital Market could result in a de-listing of our common stock.

If we fail to satisfy the continued listing requirements of The NASDAQ Capital Market, such as the corporate governance requirements or the minimum closing bid price requirement, NASDAQ may take steps to de-list our common stock. Such a de-listing would likely have a negative effect on the price of our common stock and would impair our stockholders ability to sell our common stock when such shareholders wish to do so. In the event of a de-listing, we would take actions to restore our compliance with NASDAQ s listing requirements, but we can provide no assurance that any such action taken by us would allow our common stock to become listed again, stabilize the market price or improve the liquidity of our common stock, prevent our common stock from dropping below the NASDAQ minimum bid price requirement or prevent future non-compliance with NASDAQ s listing requirements.

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Item 2. Unregistered Sales of Equity Securities and Use of Proceeds from Sales of Registered Securities

Recent Sales of Unregistered Securities

On July 6, 2013, a warrant holder exercised a warrant to purchase 6,000 shares of common stock at an exercise price of $4.00 per share using the net issuance exercise method whereby 2,072 shares were surrendered as payment in full of the exercise price resulting in a net issuance of 3,928 shares.

On July 8, 2013, the Company received $96,000 from shareholders who exercised warrants to purchase 24,000 shares of common stock at $4.00 per share.

On September 30, 2013, warrant holders exercised warrants to purchase 30,034 shares of common stock at an exercise price of $4.00 per share using the net issuance exercise method whereby 14,313 shares were surrendered as payment in full of the exercise price resulting in a net issuance of 15,721 shares.

Use of Proceeds

IPO

In connection with our IPO, we offered and sold 690,000 shares of common stock (including the over allotment option) at a price of $10.00 per share. The offer and sale of the shares in the IPO were registered under the Securities Act of 1933, as amended, pursuant to a registration statement on Form S-1 effective on April 4, 2013. The underwriters in the offering were Aegis Capital Corp and Feltl and Company. After deducting underwriting discounts and commissions, transaction fees and offering related expenses not previously paid, our net proceeds from the initial public offering (including the over allotment option) were approximately $5 million.

In connection with the offering, we paid underwriting discounts, expenses and commissions of approximately $637,000, and paid approximately $1.3 million in offering expenses.

From the date of our IPO until September 30, 2013, we used all of the net proceeds from our IPO. The net proceeds were used to fund our cash losses from operations (approximately $6.0 million) and approximately $176,000 was used for investing activities, including approximately $73,000 for the purchase of fixed assets and $50,000 to increase the security deposit for our landlord.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

None.

Item 5. Other Information

None.

Item 6. Exhibits

See the Index to Exhibits immediately following the signature page hereto, which Index to Exhibits is incorporated herein by reference.

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SIGNATURE

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

Cancer Genetics, Inc.
(Registrant)

Date: November 13, 2013

/s/ Panna L. Sharma
Panna L. Sharma
President and Chief Executive Officer

(Duly authorized signatory)

Date: November 13, 2013

/s/ Elizabeth Czerepak
Elizabeth Czerepak
Chief Financial Officer

(Principal Financial and Accounting Officer)

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INDEX TO EXHIBITS

Exhibit No.	Description
10.1	Underwriting Agreement, dated August 13, 2013, by and between Cancer Genetics, Inc. and Aegis Capital Corp., as Representative of the Several Underwriters, filed as Exhibit 1.1 to Form 8-K filed on August 14, 2013 and incorporated herein by reference
10.2	Form of Underwriting Agreement between Cancer Genetics, Inc. and Aegis Capital Corp., as Representative of the Several Underwriters, filed as Exhibit 1.1 to Form S-1/A filed on October 21, 2013 (File No. 333-191633) and incorporated herein by reference
31.1	Certification of Principal Executive Officer pursuant to Rules 13a-14(a) and 15d-14(a) promulgated under The Securities Exchange Act of 1934, as amended
31.2	Certification of Principal Financial Officer pursuant to Rules 13a-14(a) and 15d-14(a) promulgated under The Securities Exchange Act of 1934, as amended
32.1	Certifications of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of The Sarbanes-Oxley Act of 2002
32.2	Certifications of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of The Sarbanes-Oxley Act of 2002
101	The following materials from the Registrant s Quarterly Report on Form 10-Q for the quarter ended September 30, 2013, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Balance Sheet at December 31, 2012 and September 30, 2013 (unaudited), (ii) Consolidated Statements of Operations and Comprehensive Loss for the three and nine month periods ended September 30, 2012 and 2013, (iii) Consolidated Statements of Cash Flows for the nine month period ended September 30, 2012 (unaudited) and (iv) Notes to Consolidated Financial Statements (unaudited)