

CANCER GENETICS, INC
Form 10-Q
May 15, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2014

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 (State or other jurisdiction of incorporation or organization)	04-3462475 (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 ☒ 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 ☒ No ☐

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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 ☒

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

As of May 1, 2014, there were 9,282,993 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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Cancer Genetics, Inc. and Subsidiary**Consolidated Balance Sheets****(Unaudited)**

	March 31, 2014	December 31, 2013
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 41,314,995	\$ 49,459,564
Accounts receivable, net of allowance for doubtful accounts of \$36,000	1,818,096	1,567,039
Other current assets	929,460	864,616
Total current assets	44,062,551	51,891,219
FIXED ASSETS, net of accumulated depreciation	1,311,842	1,264,624
OTHER ASSETS		
Security deposits	1,564	1,564
Restricted cash	6,300,000	300,000
Loan guarantee and financing fees, net of accumulated amortization of \$517,500 in 2013		310,500
Patents	431,816	401,709
Investment in joint venture	975,902	987,657
	7,709,282	2,001,430
Total Assets	\$ 53,083,675	\$ 55,157,273
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 2,327,442	\$ 2,346,240
Obligations under capital leases, current portion	43,910	51,400
Deferred revenue	86,559	199,560
Notes payable, current portion		22,298
Line of credit		6,000,000
Total current liabilities	2,457,911	8,619,498
Obligations under capital leases	309,777	309,777

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Deferred rent payable	167,579	170,789
Line of credit	6,000,000	
Warrant liability	513,000	594,000
Total liabilities	9,448,267	9,694,064
STOCKHOLDERS EQUITY		
Preferred stock, authorized 9,764,000 shares, \$0.0001 par value		
Common stock, authorized 100,000,000 shares, \$0.0001 par value, 9,282,610 and 9,275,384 shares issued and outstanding at March 31, 2014 and December 31, 2013, respectively	928	927
Additional paid-in capital	107,444,953	106,786,862
Accumulated deficit	(63,810,473)	(61,324,580)
Total Stockholders Equity	43,635,408	45,463,209
Total Liabilities and Stockholders Equity	\$ 53,083,675	\$ 55,157,273

See Notes to Unaudited Consolidated Financial Statements.

Table of Contents**Cancer Genetics, Inc. and Subsidiary****Consolidated Statements of Operations****(Unaudited)**

	Three Months Ended March 31,	
	2014	2013
Revenue	\$ 1,430,375	\$ 1,218,667
Cost of revenues	1,290,062	1,070,020
Gross profit	140,313	148,647
Operating expenses:		
Research and development	596,771	490,577
General and administrative	2,731,404	1,570,629
Sales and marketing	748,979	396,554
Total operating expenses	4,077,154	2,457,760
Loss from operations	(3,936,841)	(2,309,113)
Other income (expense):		
Interest expense	(341,177)	(1,293,985)
Interest income	22,184	606
Change in fair value of warrant liability	(44,000)	5,299,000
Total other income (expense)	(362,993)	4,005,621
Income (loss) before income taxes	(4,299,834)	1,696,508
Income tax provision (benefit)	(1,813,941)	(663,900)
Net income (loss)	\$ (2,485,893)	\$ 2,360,408
Basic net income (loss) per share	\$ (0.27)	\$ 1.75
Diluted net loss per share	\$ (0.27)	\$ (2.18)
Basic Weighted Average Shares Outstanding	9,276,643	1,349,936
Diluted Weighted Average Shares Outstanding	9,276,643	1,349,936

See Notes to Unaudited Consolidated Financial Statements.

Table of Contents**Cancer Genetics, Inc. and Subsidiary****Consolidated Statements of Cash Flows****(Unaudited)**

	Three Months Ended March 31,	
	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	\$ (2,485,893)	\$ 2,360,408
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation	96,800	77,783
Amortization	6,702	3,807
Equity-based consulting and compensation expenses	530,122	97,133
Change in fair value of warrant liability	44,000	(5,299,000)
Amortization of loan guarantee and financing fees	310,500	407,871
Accretion of discount on debt		538,911
Deferred rent	(3,210)	1,622
Loss in equity method investment	11,755	
Deferred initial public offering costs expensed		617,706
Change in working capital components:		
Accounts receivable	(251,057)	(274,348)
Other current assets	(64,844)	10,647
Accounts payable, accrued expenses and deferred revenue	(131,799)	897,521
Net cash (used in) operating activities	(1,936,924)	(559,939)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of fixed assets	(144,018)	(11,909)
Increase in restricted cash	(6,000,000)	
Patent costs	(36,809)	(8,352)
Net cash (used in) investing activities	(6,180,827)	(20,261)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on capital lease obligations	(7,490)	(4,184)
Proceeds from warrant exercises	950	
Proceeds from option exercises	2,020	
Principal payments on notes payable	(22,298)	(18,650)
Net cash (used in) financing activities	(26,818)	(22,834)
Net (decrease) in cash and cash equivalents	(8,144,569)	(603,034)
CASH AND CASH EQUIVALENTS		

Beginning	49,459,564	819,906
Ending	\$ 41,314,995	\$ 216,872

SUPPLEMENTAL CASH FLOW DISCLOSURE

Cash paid for interest	\$ 30,677	\$ 128,215
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SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES

Accrued IPO costs	601,430
IPO costs discounted	733,250
IPO costs reclassified to accounts receivable	120,000
Accrued expenses reclassified as derivative warrant liability	221,000
Cashless exercise of derivative warrants	125,000
Warrants issued for financing fees	47,000
Retirement of treasury stock	17,442
See Notes to Unaudited Consolidated Financial Statements.	

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Notes to Unaudited Consolidated Financial Statements

Note 1. Description of Business, Basis of Presentation, Pending Acquisition, Public Offerings and Reverse Stock Splits

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 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.

Pending Acquisition of BioServe India

On May 12, 2014, we entered into two related agreements whereby we agreed to acquire BioServe BioTechnologies (India) Private Limited, an Indian corporation (BioServe).

BioServe is a leading genomic service and next-generation sequencing company founded in 2002 serving both the research and clinical markets and based in Hyderabad, India. It has approximately 26 employees, 19 working in its laboratory and 7 in sales. If the transaction is consummated, we believe we will be able to access the Indian healthcare market. The acquisition provides the Company with an infrastructure in India for developing lower cost manufacturing of probes and kits including probes and kits used for our proprietary FHACT test, a center for remote genetic analysis of US cases at lower cost and access to one of the fastest-growing molecular and clinical diagnostic markets in the world. BioServe will continue to serve biotechnology and biopharmaceutical companies, diagnostic companies and research hospitals, including those owned or operated by the Indian government, as well as expand its customer base.

The parties to the first agreement (the India Agreement) are the Company, Ramakishna V. Modali (the current general manager of BioServe, Modali), Ventureast Trustee Company Pvt Ltd and affiliates, its principal shareholder (Ventureast), and certain other shareholders residing in India all of whom in the aggregate own approximately 74% of BioServe. The parties to the second share purchase agreement (the US Agreement) are the Company and BioServe Biotechnologies LTD, a Maryland corporation and an affiliate of BioServe which owns approximately 15% of BioServe, with the majority of the other outstanding shares held by the BioServe Employee Stock Ownership Plan which will remain in place. The aggregate purchase price is approximately \$1.9 million payable to the different shareholders of BioServe as follows: (i) Ventureast will receive a payment equivalent to the cash value of 84,278 shares of the Company s common stock at the time of payment (currently approximately \$1.2 million), payable in 30 months or sooner if the Company effects a public offering of its common stock prior to that time, (ii) approximately \$100,000 is payable in cash, and (iii) approximately 8,687 shares will be issued under the US Agreement. The Company will also assume approximately \$150,000 in indebtedness. The Company is in the process of forming a subsidiary in India to which it will assign its rights to purchase shares under the India Agreement. Certain payments to the BioServe shareholders will be subject to set-off in the event of claims for indemnification for any breaches of any representations or warranties in the agreement.

As a condition of closing Mr. Modali has agreed to be employed by the Company. To induce him enter into this agreement, he will receive a restricted stock grant of approximately 22,683 shares of the Company s common stock that will be fully vested upon issuance. The shares will be subject to customary sales restrictions under United States Securities regulations and subject to set-off as a part of the warranties in the agreement.

The consummation of the transactions is subject to various conditions, including certain filings to be made and approvals received in India; the absence of any material adverse effect with respect to BioServe; the absence of any order or law preventing consummation of the transactions; and other legal and regulatory requirements.

Either party may terminate the agreements and the transactions contemplated thereby if the Closing has not occurred by August 12, 2014. The Company anticipates closing in the third quarter of 2014.

Public Offerings and Reverse Stock Splits

In April 2013, we sold shares of our common stock in an initial public offering (IPO). Additionally, we sold shares of our common stock in public offerings in August 2013 and in October 2013. Refer to Note 6 for further discussion of these offerings.

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 reflect both reverse splits.

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Note 2. Significant Accounting Policies

Basis of presentation: The accompanying unaudited condensed 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, 2013 that are included in our Form 10-K filed with the SEC on March 28, 2014. The consolidated balance sheet as of December 31, 2013, included herein was derived from the audited financial statements as of that date, but does not include all disclosures including notes required by GAAP. Operating results for the three-month period ended March 31, 2014 are not necessarily indicative of the results that may be expected for the year ending December 31, 2014.

Segment Reporting: Operating segments are defined as components of an enterprise about which separate discrete information is used by the chief operating decision maker, or decision-making group, in deciding how to allocate resources and in assessing performance. We view our operations and manage our business in one operating segment, which is the business of developing and selling diagnostic tests.

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) cash received from sales of state net operating loss carryforwards; (ii) grants from the National Institutes of Health, and; (iii) cash collections from our customers.

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 (CGI Italia). CGI Italia manufactures DNA probes. CGI Italia had approximately \$431,000 and \$398,000 in total assets at March 31, 2014 and December 31, 2013, respectively, and approximately \$28,000 and \$44,000 in total revenue for the three months ended March 31, 2014 and 2013, respectively. 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 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 litigation and 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.

Restricted cash: Represents cash held at financial institutions which we may not withdraw and which collateralizes certain of our financial commitments. All of our restricted cash is invested in interest bearing certificates of deposit. Our restricted cash collateralizes a fully-utilized \$6.0 million line of credit with Wells Fargo Bank and a \$300,000 letter of credit in favor of our landlord, pursuant to the terms of the lease for our Rutherford facility.

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

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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 revenue: Payments received in advance of services rendered are recorded as deferred revenue and are subsequently recognized as revenue in the period in which the services are performed.

Fixed assets: Fixed assets consist of diagnostic equipment, furniture and fixtures and leasehold improvements. Fixed assets are carried at cost and are depreciated over the estimated useful lives of the assets, which generally range from five to seven years. Leasehold improvements are amortized over the lesser of the lease term or the estimated useful lives of the improvements. The straight-line method is used for depreciation and amortization. Repairs and maintenance are charged to expense as incurred while improvements are capitalized. Upon sale, retirement or disposal of fixed assets, the accounts are relieved of the cost and the related accumulated depreciation or amortization with any gain or loss recorded to the consolidated statement of operations.

Fixed assets are reviewed for impairment whenever changes in circumstances indicate that the carrying amount of an asset may not be recoverable. These computations utilize judgments and assumptions inherent in our estimate of future cash flows to determine recoverability of these assets. If our assumptions about these assets were to change as a result of events or circumstances, we may be required to record an impairment loss.

Loan guarantee and financing fees: Loan guarantee fees are amortized on a straight-line basis over the term of the guarantee. Financing fees are amortized using the effective interest method over the term of the related debt.

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 three 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 Note 9). Following the IPO in April 2013 and until our shares listed on the NASDAQ Capital Market in August 2013, we used the closing price of our shares on the OTC Bulletin Board. Following the listing of our shares on the NASDAQ Capital Market in August 2013, we used the closing price on the NASDAQ Capital Market.

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

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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.

Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. We have established a full valuation allowance on our deferred tax assets.

ASC 740, Income Taxes, clarifies the accounting for uncertainty in income taxes recognized in the financial statements. ASC 740 provides that a tax benefit from uncertain tax positions may be recognized when it is more-likely-than-not that the position will be sustained upon examination, including resolutions of any related appeals or litigation processes, based on the technical merits of the position. Income tax positions must meet a more-likely-than-not recognition threshold to be recognized. ASC 740 also provides guidance on measurement, de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

Our policy is to recognize interest and/or penalties related to income tax matters in income tax expense. There is no accrual for interest or penalties on our consolidated balance sheets and we have not recognized interest and/or penalties in the consolidated statements of operations.

Patents: We account for intangible assets under ASC 350-30. Patents consist of legal fees incurred and are recorded at cost and amortized over the useful lives of the assets, using the straight-line method. Certain patents are in the legal application process and therefore are not currently being amortized. We review the carrying value of patents at the end of each reporting period. Based upon our review, there were no intangible asset impairments during the periods reported. Accumulated amortization of patents as of March 31, 2014 and December 31, 2013 was approximately \$63,000 and \$56,000, respectively.

Research and development: Research and development costs associated with service and product development include direct costs of payroll, employee benefits, stock-based compensation and supplies and an allocation of indirect costs including rent, utilities, depreciation and repairs and maintenance. All research and development costs are expensed as they are incurred.

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 March 31, 2014 and December 31, 2013, we have an accrued liability of \$300,000 related to the issuance of Series B preferred stock.

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' equity over the applicable service periods based on the fair value of the awards or consideration received at the vesting date.

Fair value of financial instruments: The carrying amount of cash and cash equivalents, restricted cash, accounts receivable, accounts payable and accrued expenses, approximate their estimated fair values due to the short term maturities of those financial instruments. These financial instruments are considered Level 1 measurements under the fair value hierarchy. The fair values of our notes payable, line of credit and capital leases approximate carrying value under Level 2 of the fair value hierarchy. The fair value of warrants recorded as derivative liabilities is described in Note 9.

Joint venture accounted for under the equity method: The Company records its joint venture investment following the equity method of accounting, reflecting its initial investment in the joint venture and its share of the joint venture's net earnings or losses and distributions. The Company's share of the joint venture's net loss was approximately \$12,000 and \$0 for the quarterly periods ended March 31, 2014 and 2013, respectively, and is included in Research and development expense on the Consolidated Statement of Operations. The Company has a net receivable due from the joint venture of approximately \$30,000 and \$24,000 at March 31, 2014 and December 31, 2013, respectively, which is included in other assets in the Consolidated Balance Sheet. See additional information in Note 11.

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Subsequent events: We have evaluated potential subsequent events through 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 March 31,	
	2014	2013
Numerator:		
Net income (loss) for basic earnings per share	\$ (2,485,893)	\$ 2,360,408
Change in fair value of warrant liability		5,299,000
Net (loss) for diluted earnings per share	\$ (2,485,893)	\$ (2,938,592)
Denominator:		
Weighted-average basic common shares outstanding	9,276,643	1,349,936
Assumed conversion of dilutive securities:		
Common stock purchase warrants		
Potentially dilutive common shares		
Denominator for diluted earnings per share adjusted weighted-average shares	9,276,643	1,349,936
Basic net income (loss) per share	\$ (0.27)	\$ 1.75
Diluted net loss per share	\$ (0.27)	\$ (2.18)

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

	At March 31,	
	2014	2013
Common stock purchase warrants	1,781,199	1,111,588
Stock options	848,092	548,007
Restricted shares of common stock	5,000	

Common shares issuable upon conversion of Series A Preferred Stock	352,614
Common shares issuable upon conversion of Series B Preferred Stock	364,320
	2,634,291
	2,376,529

Note 3. Revenue and Accounts Receivable

Revenue by payor type for the three months ended March 31, 2014 and 2013 is comprised of the following:

	Three Months Ended March 31,	
	2014	2013
Medicare	\$ 250,120	\$ 257,063
Direct bill (including clinical trials)	869,260	511,347
Insurance carrier and all others	310,995	450,257
	\$ 1,430,375	\$ 1,218,667

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Accounts receivable by payor type at March 31, 2014 and December 31, 2013 consists of the following:

	March 31, 2014	December 31, 2013
Medicare	\$ 486,778	\$ 408,856
Direct bill (including clinical trials)	794,020	628,830
Insurance carrier and all others	573,298	565,353
Allowance for doubtful accounts	(36,000)	(36,000)
	\$ 1,818,096	\$ 1,567,039

We have historically derived a significant portion of our revenue from a limited number of test ordering sites. The test ordering sites are largely hospitals, cancer centers, reference laboratories, physician offices and clinical trial clients. 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 top five test ordering sites during the three months ended March 31, 2014 and 2013 accounted for 63% and 58% respectively, of our clinical testing volumes, with 32 % and 30% respectively, of the volume coming from community hospitals. During the three months ended March 31, 2014, there was one site which accounted for approximately 10% or more of our revenue. A clinical trial client accounted for approximately 33% of our revenue. During the three months ended March 31, 2013, there were three sites which each accounted for approximately 10% or more of our revenue. A clinical trial client accounted for approximately 21%, a university teaching center accounted for approximately 12%, and a community oncology practice accounted for approximately 12% of our revenue. While we have agreements with our clinical trials clients, volumes from these clients is subject to the progression and continuation of the trials as determined by the client which can impact testing volume. We generally do not have formal written agreements with other testing sites and, as a result, we may lose these significant test ordering sites at any time.

Note 4. Notes Payable and Line of Credit

Below is a summary of our short-term and long-term debt obligations as of March 31, 2014 and December 31, 2013:

	March 31, 2014	December 31, 2013
Secured Note Payable, short-term	\$	\$ 22,298
Notes Payable, Current Portion	\$	\$ 22,298
Line of Credit, Principal Balance	\$	\$ 6,000,000
Line of Credit, Current Portion	\$	\$ 6,000,000
Lines of Credit, Long-Term	\$ 6,000,000	\$

Business Line of Credit Wells Fargo

At December 31, 2013 and March 31, 2014, we had fully utilized a line of credit (Line) with Wells Fargo Bank which provided for maximum borrowings of \$6 million. Interest on the Line was due monthly equal to 1.75% above the Daily One Month LIBOR rate (2.0% at March 31, 2014). The Line required the repayment of principal, and any unpaid interest, in a single payment due upon maturity. The Line matured April 1, 2014, was guaranteed by John Pappajohn, our Chairman of the Board of Directors and significant shareholder, and was collateralized by a first lien on all of our assets including the assignment of our approved and pending patent applications.

Subsequent Event

On April 1, 2014 we entered into a credit agreement (the Credit Agreement) and re-negotiated the terms of the Line with Wells Fargo Bank. Under the terms of the Credit Agreement we maintain the Line with maximum borrowings of \$6 million which have been fully drawn. The Line has been extended through April 1, 2016 at a rate of interest equal to LIBOR plus 1.75% (2.0% at April 1, 2014). The facility requires monthly interest payments. The pledge of all of our assets and intellectual property, as well as the guarantee by Mr. Pappajohn, was released and instead we restricted \$6.0 million in cash, which is invested in an interest bearing certificate of deposit, as collateral. Additionally, we are required to maintain limits on capital spending and are restricted as to the amount we may pledge as collateral for additional borrowings from any source. The Credit Agreement requires the repayment of principal, and any unpaid interest, in a single payment due upon maturity. As result of the extension of the maturity date and the transfer of cash to Wells Fargo as collateral, we have presented the line of credit as a long-term liability and the cash collateral as restricted cash at March 31, 2014. The cash will remain restricted until such time as the Line is repaid.

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Secured Note Payable

On September 25, 2012, we entered into a note payable secured by lab equipment due March 25, 2014. The note required monthly payments of principal and interest at 18% per annum. At December 31, 2013, \$22,298 was outstanding under the note. On February 21, 2014, the note was paid off prior to its contractual due date.

Note 5. Letter of Credit

During 2013 we restricted an additional \$50,000 in cash and secured a \$300,000 letter of credit in favor of our landlord pursuant to the terms of the lease for our Rutherford facility. At March 31, 2014 the letter of credit was fully secured by the restricted cash disclosed on our Consolidated Balance Sheet.

Note 6. Capital Stock

IPO

On April 10, 2013, we completed our IPO in which we issued and sold 690,000 shares of common stock (including the underwriter's over-allotment of 90,000 shares) at a public offering price of \$10.00 per share, resulting in gross proceeds of \$6.9 million (net proceeds of \$5 million). Upon closing of the IPO, 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. Also upon closing of the IPO, \$9.6 million of debt converted into 963,430 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, we issued 2,000 shares of common stock to Cleveland Clinic pursuant to our license agreement with Cleveland Clinic.

Secondary Offering

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). We used \$3.5 million of the proceeds to repay certain indebtedness which was due on August 15, 2013. 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). All references to the sales of common stock mentioned in this paragraph are referred to as the Secondary Offering.

Follow-On Offering

On October 28, 2013, we sold 3,286,700 shares of common stock (including the underwriter's over-allotment 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 \$42.3 million). All references to the sales of common stock mentioned in this paragraph are referred to as the Follow-On Offering.

Preferred Stock

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

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.

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.

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

At March 31, 2014, 26,688 shares remain available for future awards under the 2011 Plan and 27,154 shares remain available for future awards under the 2008 Plan.

As of March 31, 2014, no stock appreciation rights and 7,500 shares of restricted stock have been awarded under the Stock Option Plans.

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Prior to our IPO in April 2013, the Board of Directors authorized an offer to certain employee and non-employee options holders on the following terms: those 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 holding stock options with a 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. The exchange of the options did not result in the recognition of incremental compensation cost. 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.

A summary of employee and nonemployee stock option activity for year ended December 31, 2013 and the three months ended March 31, 2014 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, 2013	553,340	\$ 12.76	7.13	\$ 1,142,432
Granted	426,762	14.57		
Exercised	(164)	10.00		
Cancelled or expired	(106,396)	20.46		
Outstanding December 31, 2013	873,542	\$ 10.83	7.75	\$ 3,138,539
Exercised	(202)	10.00		
Cancelled or expired	(25,248)	8.57		
Outstanding March 31, 2014	848,092	\$ 10.90	7.01	\$ 3,654,874
Exercisable, March 31, 2014	447,152	\$ 7.86	5.11	\$ 3,242,741

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 fair value of our common stock was \$15.09 at March 31, 2014 and \$13.78 at December 31, 2013, based on the closing price on the NASDAQ Capital Market.

As of March 31, 2014, total unrecognized compensation cost related to non-vested stock options granted to employees was \$3,519,701 which we expect to recognize over the next 3.86 years.

As of March 31, 2014, total unrecognized compensation cost related to non-vested stock options granted to non-employees was \$77,767 which we expect to recognize over the next 1.53 years. The estimate of unrecognized nonemployee compensation is based on the fair value of the non-vested options as of March 31, 2014.

The following table summarizes information about outstanding and vested stock options granted to employees and non-employees as of March 31, 2014 as follows:

Exercise Price	Options Outstanding			Options Vested and Exercisable	
	Number of Shares Outstanding	Weighted-Average Exercise Price	Weighted-Average Remaining Contract Life (in Years)	Number of Shares	Weighted-Average Exercise Price
4.00	160,000	\$ 4.00	4.56	160,000	\$ 4.00
4.80	33,340	4.80	5.81	28,410	4.80
10.00	291,540	10.00	5.69	230,726	10.00
11.75	5,600	11.75	9.05		11.75
12.50	200	12.50	6.70	130	12.50
12.55	10,000	12.55	9.72	500	12.55
13.81	3,000	13.81	9.66		13.81
14.18	5,500	14.18	9.64		14.18
15.39	338,912	15.39	9.27	27,386	15.39
Total	848,092	\$ 10.90	7.01	447,152	\$ 7.86

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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 prior to our IPO (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 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 three 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.

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. In October 2013, we issued 10,000 options to a non-employee with an exercise price of \$15.39. 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 March 31,	
	2014	2013
Volatility	72.66%	75.86%
Risk free interest rate	2.73%	1.25%
Dividend yield	0.00%	0.00%
Term (years)	9.53	7.71

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 March 31,	
	2014	2013
Cost of revenues	\$ 20,412	\$ 2,212
Research and development	14,102	34,836
General and administrative	468,855	58,153
Sales and marketing	26,753	1,932
Total stock-based compensation	\$ 530,122	\$ 97,133

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 was 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. As of March 31, 2014 all warrants with a share adjustment feature have either expired or have been exercised.

In January 2014, the Company received \$950 from a warrant holder who exercised warrants to purchase 95 shares of common stock at \$10.00 per share. In February 2014 a warrant holder exercised warrants to purchase 3,320 shares of common stock at an exercise price of \$10.00 per share using the net issuance exercise method whereby 1,661 shares were surrendered in payment in full of the exercise price resulting in a net issuance of 1,659 shares. In March 2014 a warrant holder exercised warrants to purchase 12,500 shares of common stock at an exercise price of \$10.00 per share using the net issuance exercise method whereby 7,230 shares were surrendered in payment in full of the exercise price resulting in a net issuance of 5,270 shares.

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The following table summarizes the warrant activity for the three months ended March 31, 2014:

Issued With / For	Exercise Price	Warrants Outstanding January 1, 2014	2014 Warrants Exercised	Warrants Outstanding March 31, 2014
Non-Derivative Warrants:				
Financing	\$ 10.00	243,334		243,334
Financing	15.00	436,079		436,079
Debt Guarantee	4.00	174,288		174,288
Debt Guarantee	10.00	237,500		237,500
Debt Guarantee	15.00	585,645		585,645
Consulting	10.00	29,138		29,138
	12.38 ^C	1,705,984		1,705,984
Derivative Warrants:				
Financing	10.00 ^B	60,000		60,000
Debt Guarantee	10.00 ^A	12,500	(12,500)	
Series B Pref. Stock	10.00 ^B	18,430	(3,415)	15,015
Consulting	10.00 ^B	200		200
	10.00 ^C	91,130	(15,915)	75,215
	\$ 12.28 ^C	1,797,114	(15,915)	1,781,199

^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 Weighted average exercise prices are as of March 31, 2014.

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 three months ended March 31, 2014 and 2013 and at March 31, 2014 and December 31, 2013. 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. Such adjustments were only applicable to the three months ended March 31, 2013 due to the relative price of the warrants and the assumed Company stock price.

Issued with Debt Guarantee

Exercised During
the Three
Months Ended

As of
December 31, 2013

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March 31, 2014

Exercise Price	\$	10.00	\$	10.00
Expected life (years)		0.60		0.83
Expected volatility		49.01%		57.33%
Risk-free interest rate		0.08%		0.13%
Expected dividend yield		0.00%		0.00%

Issued with Series B Preferred Shares	Exercised During the Three			
	Months Ended March 31, 2014	As of March 31, 2014	As of December 31, 2013	
Exercise Price	\$	10.00	\$	10.00
Expected life (years)		1.72		1.67
Expected volatility		46.60%		46.97%
Risk-free interest rate		0.33%		0.44%
Expected dividend yield		0.00%		0.00%

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Issued for Consulting	As of March 31, 2014	As of December 31, 2013
Exercise Price	\$ 10.00	\$ 10.00
Expected life (years)	1.90	2.14
Expected volatility	47.04%	63.63%
Risk-free interest rate	0.44%	0.38%
Expected dividend yield	0.00%	0.00%

Issued with Financing	Issued During the Three Months Ended March 31, 2013	As of March 31, 2014	As of December 31, 2013
Exercise Price	\$ 13.34	\$ 10.00	\$ 10.00
Expected life (years)	9.78	2.00	2.25
Expected volatility	74.70%	47.05%	64.40%
Risk-free interest rate	1.95%	0.44%	0.38%
Expected dividend yield	0.00%	0.00%	0.00%

The range of Company stock prices used in computing the fair value of warrants exercised during the three months ended March 31, 2014 was \$15.20 – \$19.86 and for the fair value of warrants issued during the three months ended March 31, 2013, the assumed range of Company stock prices used was \$9.60 – \$9.70. In determining the fair value of warrants issued at each reporting date, the Company stock price was \$15.09 at March 31, 2014 and \$13.78 at December 31, 2013 based on the closing price on the NASDAQ Capital Market.

The following table summarizes the derivative warrant activity subject to fair value accounting for the three months ended March 31, 2014:

Issued with/for	Fair value of warrants outstanding as of December 31, 2013	Fair value of warrants exercised	Change in fair value of warrants	Fair value of warrants outstanding as of March 31, 2014
Series B Preferred Stock	\$ 117,000	\$ (38,000)	\$ 22,000	\$ 101,000
Debt Guarantee	64,000	(87,000)	23,000	
Consulting	1,000			1,000
Financing	412,000		(1,000)	411,000
	\$ 594,000	\$ (125,000)	\$ 44,000	\$ 513,000

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.

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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:

March 31, 2014				
		Quoted Prices in		
		Active Markets for		Significant Other
		Identical	Observable	Significant
		Assets	Inputs	Unobservable
	Total	(Level 1)	(Level 2)	Inputs
				(Level 3)
Warrant liability	\$ 513,000			\$ 513,000

December 31, 2013				
		Quoted Prices in		
		Active Markets for		Significant Other
		Identical	Observable	Significant
		Assets	Inputs	Unobservable
	Total	(Level 1)	(Level 2)	Inputs
				(Level 3)
Warrant liability	\$ 594,000			\$ 594,000

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.

A table summarizing the activity for the derivative warrant liability which is measured at fair value using Level 3 inputs is presented in Note 9.

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 is a limited liability company, with each party initially holding fifty percent of the issued and outstanding membership interests of the new entity (the JV). In exchange for our membership interest in the JV, we made an initial capital contribution of \$1.0 million in October 2013 (the Closing Date). In addition, we issued 10,000 shares of our common stock to Mayo pursuant to our affiliation agreement and recorded an expense of approximately \$175,000. We also recorded additional expense of approximately \$231,000 during the fourth quarter of 2013 related to shares issued to Mayo in November of 2011 as the JV achieved certain performance milestones.

The agreement also requires aggregate total capital contributions by us of up to an additional \$5.0 million over the next two and a half years. We currently anticipate that we will make capital contributions of \$1.0 million in the second quarter of 2014 and \$2.0 million each on the first and second anniversaries of the closing date, respectively, with the

latter two installments subject to the JV's achievement of certain operational milestones agreed upon by the board of governors of the JV. In exchange for its membership interest, 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 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.

Note 12. Related Party Transactions

John Pappajohn, a member of the Board of Directors and stockholder, had personally guaranteed our revolving line of credit with Wells Fargo Bank through March 31, 2014. As consideration for his guarantee, as well as each of the eight extensions of this facility through March 31, 2014, 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 March 31, 2014. 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.

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In addition, John Pappajohn also had loaned us an aggregate of \$6,750,000 (all of which was converted into 675,000 shares of common stock at the IPO price of \$10.00 per share). 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 March 31, 2014.

On January 3, 2014, the board of directors appointed John Pappajohn to serve as the Chairman of the Board, a position previously held by Dr. Raju S.K. Chaganti, effective January 6, 2014. As compensation for serving as the Chairman of the Board, the Company will pay Mr. Pappajohn \$100,000 per year and will grant to Mr. Pappajohn, subject to the approval by the Company's stockholders of a new equity incentive plan or the amendment of the Company's existing equity incentive plan, 25,000 restricted shares of the Company's common stock, and options to purchase an aggregate of 100,000 shares of the Company's common stock. The options will have a term of ten years from the date on which they are granted. The restricted stock and the options will each vest in two equal installments on the one year anniversary and the two year anniversary of the date on which Mr. Pappajohn becomes the Chairman of the Board.

On May 19, 2006, we issued a convertible promissory note in favor of our then 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 totaled \$2,100 for the quarter ended March 31, 2013. 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. Pursuant to a consulting and advisory agreement, Dr. Chaganti also received options to purchase a total of 36,000 shares of common stock at a 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 each of the quarterly periods ended March 31, 2014 and 2013 were \$0 and \$27,350, respectively. Additionally, on September 15, 2010, we entered into a three-year consulting agreement with Dr. Chaganti which was subsequently renewed through December 31, 2016 pursuant to which Dr. Chaganti receives \$5,000 per month for providing consulting and technical support services. Total expenses for each of the quarterly periods ended March 31, 2014 and 2013 were \$15,000. Pursuant to the terms of the renewed consulting agreement, Dr. Chaganti will receive, subject to the adoption of a new equity plan or amendment to increase the shares available for issuance under the 2011 Equity Plan, an option to purchase 200,000 shares of our common stock at a purchase price of \$15.89 per share. Also pursuant to the consulting agreement, Dr. Chaganti assigned to us all rights to any inventions which he may invent during the course of rendering consulting services to us. In exchange for this assignment, if the USPTO issues a patent for an invention on which Dr. Chaganti is listed as an inventor, we are required to pay Dr. Chaganti (i) a one-time payment of \$50,000 and (ii) 1% of any net revenues we receive from any licensed sales of the invention. During the quarter ended March 31, 2014, we paid Dr. Chaganti \$150,000 which was recognized as an expense in fiscal 2013 when three patents were issued.

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 expenses for the three months ended March 31, 2014 and 2013 were \$30,000. As of March 31, 2014, we owed Equity Dynamics, Inc. \$0.

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 audited consolidated financial statements and notes thereto included in our 10-K filed with the SEC on March 28, 2014. This MD&A may contain forward-looking statements that involve risks and uncertainties. See Cautionary Note Regarding 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 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.

The non-proprietary testing services we offer are 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 expect to continue to incur significant losses for the near future. We incurred losses of \$12.4 million and \$6.7 million for fiscal years ended December 31, 2013 and 2012, respectively. As of March 31, 2014, we had an

accumulated deficit of \$63.8 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. 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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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 5% 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-makers at hospitals, cancer centers, physician offices, or pharmaceutical companies 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 top five test ordering sites during the three months ended March 31, 2014 and 2013 accounted for 63% and 58% respectively, of our clinical testing volumes, with 32 % and 30% respectively, of the volume coming from community hospitals. During the three months ended March 31, 2014, there was one site which accounted for approximately 10% or more of our revenue. A clinical trial client accounted for approximately 33% of our revenue. During the three months ended March 31, 2013, there were three sites which each accounted for approximately 10% or more of our revenue. A clinical trial client accounted for approximately 21%, a university teaching center accounted for approximately 12%, and a community oncology practice accounted for approximately 12% of our revenue.

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 year ended December 31, 2013, private insurance accounted for approximately 21% of our total revenue, Medicare accounted for approximately 13% of our total revenue, direct bill clients accounted for 58% 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 and 2013. 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 and attempting to negotiate improved terms with our suppliers. We successfully migrated key components of our probe manufacturing to India in 2013, which reduced the labor costs involved and increased manufacturing yield and flexibility. We will continue to assess how geographic advantage can help us improve our cost structure.

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,

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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 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 have started to increase our sales and marketing and clinical efforts since our IPO and we expect our sales and marketing expenses to increase significantly 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, and other general expenses. We have incurred increases in our general and administrative expenses and anticipate further increases as we expand our business operations. We further expect that general and administrative expenses will increase significantly due to increased information technology, 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 March 31, 2014 and 2013**

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

	Three Months Ended March 31,		Change	
	2014	2013	\$	%
<i>(dollars in thousands)</i>				
Revenue	\$ 1,430	\$ 1,218	\$ 212	17%
Cost of revenues	1,290	1,070	220	21%
Research and development expenses	597	491	106	22%
General and administrative expenses	2,731	1,570	1,161	74%
Sales and marketing expenses	749	396	353	89%
Total Operating Loss	(3,937)	(2,309)	(1,628)	(71%)
Interest income (expense)	(319)	(1,294)	975	75%
Change in fair value of warrant liability	(44)	5,299	(5,343)	(101%)
Income (loss) before income taxes	(4,300)	1,696	(5,996)	(354%)
Income tax (benefit) expense	(1,814)	(664)	1,150	173%

Net income (loss)	\$ (2,486)	\$ 2,360	\$ (4,846)	(205%)
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Revenue

Revenue increased 17%, or \$212,000, principally due to an increase in test volume partially offset by a decrease in revenue per test. Our total test volume increased 45% to 2,772 from 1,911 in the prior year period. Our average revenue per test (excluding grant revenue and probe revenue) decreased by 18% to \$506 per test, from \$615 per test in the prior year period principally due to a decrease in the average revenue per test attributable to direct bill tests which includes FHACT™, our proprietary FISH-based HPV-associated cancer test. We anticipate that revenue per test may continue to decline if direct bill clients continue to account for a larger part of our business and as we increase volumes of FHACT™.

	Three Months Ended March 31,				Change	
	2014		2013			
	\$	%	\$	%	\$	%
<i>(dollars in thousands)</i>						
Medicare	\$ 250	17%	\$ 257	21%	\$ (7)	(3%)
Direct bill (including clinical trials)	869	61%	511	42%	358	70%
Insurance carrier and all others	311	22%	450	37%	(139)	(31%)
Total Revenue	\$ 1,430	100%	\$ 1,218	100%	\$ 212	17%

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Revenue from Medicare decreased 3%, or \$7,000, principally due to a decrease in revenue per test. Revenue from direct bill (including clinical trials customers) increased 70%, or \$357,000, principally due to an increase in clinical trial service volumes as well as an increase in the number of direct bill customers, both of which were partially offset by a decrease in revenue per test. Revenue from insurance carriers and others, which includes DNA probe sales by CGI Italia, decreased 31%, or \$139,000, principally due to a decrease in testing volumes partially offset by an increase in revenue per test.

Cost of Revenues

Cost of revenues increased 21%, or \$220,000, principally due to: an increase in clinical supply costs of \$122,000 related to higher test volumes; and an increase of \$63,000 associated with an increase in headcount.

Operating Expenses

Research and Development Expenses. Research and development expenses increased 22%, or \$106,000, principally due to an increase in compensation related expenses related to labor incurred as we validate diagnostic tests results and develop testing procedures.

General and Administrative Expenses. General and administrative expenses increased 74%, or \$1.2 million, principally due to: an increase in compensation costs of \$899,000, \$525,000 of which relate to a separation agreement which we entered into with our former CFO in March 2014 and \$286,000 of which relates to an increase in stock-based compensation costs; and an increase of \$701,000 related to costs associated with being a public company, including increased insurance costs all of which was partially offset by the write-off of \$618,000 of deferred IPO costs in 2013.

Sales and Marketing Expenses. Sales and marketing expenses increased 89%, or \$353,000, principally due to an increase in compensation and travel costs associated with increased headcount as we hire additional sales and marketing personnel.

Interest Income (Expense)

Net interest expense decreased 75%, or \$975,000, principally due 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 of indebtedness in August 2013.

Change in Fair Value of Warrant Liability

The change in the fair value of our warrant liability resulted in \$44,000 in non-cash expense for the three months ended March 31, 2014, as compared with non-cash income of \$5.3 million for the three months ended March 31, 2013. The fair market value of certain of our outstanding common stock warrants, that we are required to account for as liabilities, are revalued each quarter at amounts that 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 and also resulted from a shareholder, John Pappajohn, limiting certain anti-dilution rights in his warrants to purchase shares of the Company's common stock. 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 March 31, 2014, the fair market value of the

75,215 remaining common stock warrants that are subject to revaluation increased as a consequence of an increase in our stock price and resulted in \$44,000 of non-cash expense during this period.

During the three months ended March 31, 2013, the fair market value of these common stock warrants decreased as a consequence of a decrease in our assumed stock price and resulted in \$5.3 million of non-cash income during that period.

Income Taxes

During the three months ended March 31, 2014 and 2013, we received \$1.8 million and \$664,000, respectively, in cash from 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) cash received from sales of state NOL s; (ii) grants from the National Institutes of Health, and; (iii) cash collections from our customers.

During January 2014, we received \$1.8 million in cash in from sales of state NOL s.

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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. As of March 31, 2014, we have maximized our borrowings under our revolving credit line at \$6 million. 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:

	Three Months Ended March 31	
	2014	2013
<i>(in thousands)</i>		
Cash provided by (used in):		
Operating activities	\$ (1,937)	\$ (560)
Investing activities	(6,181)	(20)
Financing activities	(27)	(23)
Net (decrease) in cash and cash equivalents	\$ (8,145)	\$ (603)

We had cash and cash equivalents of \$41.3 million at March 31, 2014, and \$49.5 million at December 31, 2013.

The \$8.2 million decrease in cash and cash equivalents for the three months ended March 31, 2014, principally resulted from an increase in our restricted cash of \$6.0 million related to the collateralization of our line of credit with Wells Fargo and \$1.9 million of net cash used in operations.

The \$603,000 decrease in cash and cash equivalents for the three months ended March 31, 2013, was principally the result of our \$560,000 net cash used in operations which includes \$128,000 in cash interest payments, \$19,000 in principal payments on notes payable and \$12,000 in purchases of fixed assets.

At March 31, 2014, we had total indebtedness of \$6.0 million, excluding capital lease obligations

Cash Used in Operating Activities

For the three months ended March 31, 2014, we used \$3.3 million in net cash to fund our core operations after adjusting for the \$1.8 million in proceeds on the sale of certain state NOL carryforwards in January 2014 and working capital items as follows: a net increase in accounts receivable of \$251,000; a net decrease in accounts payable, accrued expenses (including the payout of 2013 accrued performance bonuses) and deferred revenue of \$132,000; and an increase in other current assets of \$65,000 which includes prepayments for our insurance policies.

Net cash used in operating activities was \$560,000 for the three months ended March 31, 2013, consisting primarily of \$2.4 million in net income during the period after non-cash income from a change in fair value of warrant liability of \$5.3 million offset by an increase in accounts payable, accrued expenses and deferred revenue of \$897,000, non-cash debt costs of \$947,000 and the write-off of deferred IPO costs of \$618,000. Additionally, during the three months ended March 31, 2013, we received \$664,000 in cash from the sale of certain state NOL carryforwards.

Cash Used in Investing Activities

Net cash used in investing activities was \$6.2 million for the three months ended March 31, 2014 and principally resulted from an increase in our restricted cash of \$6.0 million related to the collateralization of our line of credit with Wells Fargo.

Net cash used in investing activities was \$20,000 for the three months ended March 31, 2013 due to an increase of \$12,000 in purchases of fixed assets and \$8,000 in patent application costs.

Cash Used in Financing Activities

Net cash used in financing activities was \$27,000 for the three months ended March 31, 2014, and principally resulted from payments of notes payable of \$22,000.

Net cash used in financing activities was \$23,000 for the three months ended March 31, 2013, principally due to \$19,000 in principal payments on notes payable and \$4,000 in payments on capital lease obligations.

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 may need to continue to raise additional capital to fund our operations.

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On March 31, 2014, the Company's Chief Financial Officer, Elizabeth Czerepak resigned. In connection with Ms. Czerepak's resignation, we entered into a separation agreement (the "Separation Agreement") with Ms. Czerepak. We incurred expenses of approximately \$525,000 under the Separation Agreement which are reflected General and administrative expense. As of March 31, 2014, \$375,000 of these costs is accrued and will be paid over the remainder of fiscal 2014.

We believe our cash and cash equivalents are sufficient to satisfy our liquidity requirements at our current level of operations for at least 24 months.

We expect our operating expenses, particularly those relating to sales and marketing, to increase as we 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 our expected operating expenses 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:

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;

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

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 internal sales, marketing and distribution capabilities;

our ability to collect revenues;

our ability to secure financing and the amount thereof; and

other risks and uncertainties discussed under the headings *Business*, *Risk Factors* and *Management's Discussion and Analysis of Financial Condition and Results of Operations* in our annual report on Form 10-K for the year ended December 31, 2013 and other reports we file with the Securities and Exchange Commission.

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. We currently anticipate that we will make capital contributions of \$1.0 million in the second quarter of 2014 and expect to make additional capital contributions of up to \$4.0 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

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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.

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 have chosen 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.

Our critical accounting policies are more fully described in Note 2 to our consolidated financial statements included in our annual report on Form 10-K for the year ended December 31, 2013 and there have been no material changes to such critical 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.

Cautionary Note Regarding Forward-Looking Statements

Safe Harbor Statement under the Private Securities Litigation Reform Act of 1995

This report on Form 10-Q contains forward-looking statements made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 under Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. 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, potential, and 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. There are a number of important factors that could cause the actual results to differ materially from those expressed in any forward-looking statement made by us. These factors include, but are not limited to:

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;

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our ability to raise additional capital to meet our 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 rapidly advancing market and scientific developments;

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;

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, we 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 obtain 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;

our ability to adequately support future growth; and

the factors listed under the heading *Business, Risk Factors and Management's Discussion and Analysis of Financial Condition and Results of Operations* in our annual report on Form 10-K for the year ended December 31, 2013 and other reports that we file with the Securities and Exchange Commission.

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 herein and filed as exhibits completely and with the understanding that our actual future results may be materially different from what we expect.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Not applicable.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We evaluated, under the supervision and with the participation of the Chief Executive Officer and Chief Financial Officer, 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 and Exchange Act of 1934 (*Exchange Act*), as amended, as of March 31, 2014, the end of the period covered by this report on Form 10-Q. Based on this evaluation, our President and Chief Executive Officer (principal executive officer) and our Chief Financial Officer (principal accounting and financial officer) have concluded that our disclosure controls and procedures were effective at the reasonable assurance level at March 31, 2014. Disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed by us in the reports that we file or submit under the Exchange Act (i) is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and (ii) is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures.

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Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the three months ended March 31, 2014 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

Not applicable.

Item 1A. Risk Factors

There have been no material changes to the risk factors disclosed in Part 1, Item 1A, of our annual report on Form 10-K for the year ended December 31, 2013.

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

Not applicable.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

Pending Acquisition of Bioserve India

On May 12, 2014, we entered into two related agreements whereby we agreed to acquire BioServe BioTechnologies (India) Private Limited, an Indian corporation ("BioServe").

BioServe is a leading genomic service and next-generation sequencing company founded in 2002 serving both the research and clinical markets and based in Hyderabad, India. It has approximately 26 employees, 19 working in its laboratory and 7 in sales. If the transaction is consummated, we believe we will be able to access the Indian healthcare market. The acquisition provides the Company with an infrastructure in India for developing lower cost manufacturing of probes and kits including probes and kits used for our proprietary FHACT test, a center for remote genetic analysis of US cases at lower cost and access to one of the fastest-growing molecular and clinical diagnostic markets in the world. BioServe will continue to serve biotechnology and biopharmaceutical companies, diagnostic companies and research hospitals, including those owned or operated by the Indian government, as well as expand its customer base.

The parties to the first agreement (the "India Agreement") are the Company, Ramakishna V. Modali (the current general manager of BioServe, "Modali"), Ventureast Trustee Company Pvt Ltd and affiliates, its principal shareholder

(Ventureast), and certain other shareholders residing in India all of whom in the aggregate own approximately 74% of BioServe. The parties to the second share purchase agreement (the US Agreement) are the Company and BioServe Biotechnologies LTD, a Maryland corporation and an affiliate of BioServe which owns approximately 15% of BioServe, with the majority of the other outstanding shares held by the BioServe Employee Stock Ownership Plan which will remain in place. The aggregate purchase price is approximately \$1.9 million payable to the different shareholders of BioServe as follows: (i) Ventureast will receive a payment equivalent to the cash value of 84,278 shares of the Company s common stock at the time of payment (currently approximately \$1.2 million), payable in 30 months or sooner if the Company effects a public offering of its common stock prior to that time, (ii) approximately \$100,000 is payable in cash, and (iii) approximately 8,687 shares will be issued under the US Agreement. The Company will also assume approximately \$150,000 in indebtedness. The Company is in the process of forming a subsidiary in India to which it will assign its rights to purchase shares under the India Agreement. Certain payments to the BioServe shareholders will be subject to set-off in the event of claims for indemnification for any breaches of any representations or warranties in the agreement.

As a condition of closing Mr. Modali has agreed to be employed by the Company. To induce him enter into this agreement, he will receive a restricted stock grant of approximately 22,683 shares of the Company s common stock that will be fully vested upon issuance. The shares will be subject to customary sales restrictions under United States Securities regulations and subject to set-off as a part of the warranties in the agreement.

The consummation of the transactions is subject to various conditions, including certain filings to be made and approvals received in India; the absence of any material adverse effect with respect to BioServe; the absence of any order or law preventing consummation of the transactions; and other legal and regulatory requirements.

Either party may terminate the agreements and the transactions contemplated thereby if the Closing has not occurred by August 12, 2014. The Company anticipates closing in the third quarter of 2014.

Item 6. Exhibits

See the Index to Exhibits 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: May 15, 2014

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

(Principal Executive Officer)

Date: May 15, 2014

/s/ **Edward J. Sitar**
Edward J. Sitar
Chief Financial Officer

(Principal Financial and Accounting Officer)

Table of Contents**INDEX TO EXHIBITS**

Exhibit No.	Description
10.1	Letter Agreement, between Cancer Genetics, Inc. and Andrew L. Pecora, effective February 18, 2014 filed as Exhibit 10.66 to Form 10-K filed on March 28, 2014 and incorporated herein by reference.
10.2	Consulting Agreement, between Cancer Genetics, Inc. and R.S.K. Chaganti, dated February 19, 2014 filed as Exhibit 10.67 to Form 10-K filed on March 28, 2014 and incorporated herein by reference.
10.3	Separation and General Release Agreement, between Cancer Genetics, Inc. and Elizabeth Czerepak, effective March 31, 2014 filed as Exhibit 10.68 to Form 10-K filed on March 28, 2014 and incorporated herein by reference.
10.4	Employment Agreement, between Cancer Genetics, Inc. and Edward J. Sitar, dated March 17, 2014 filed as Exhibit 10.69 to Form 10-K filed on March 28, 2014 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 March 31, 2014, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Balance Sheet at December 31, 2013 and March 31, 2014 (unaudited), (ii) Consolidated Statements of Operations and Comprehensive Loss for the three month periods ended March 31, 2014 and 2013, (iii) Consolidated Statements of Cash Flows for the three month periods ended March 31, 2014 and 2013 (unaudited) and (iv) Notes to Consolidated Financial Statements (unaudited)

* Users of this interactive data file are advised that, pursuant to Rule 406T of Regulations S-T, this interactive data file is deemed not filed or part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934, and otherwise is not subject to liability under these sections.