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 September 30, 2020

Or

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

For the transition period from_____ to _____

Commission file number 001-35817

CANCER GENETICS, INC.
(Exact name of registrant as specified in its charter)

Delaware	**04-3462475**
State or Other Jurisdiction of Incorporation or Organization	I.R.S. Employer Identification No.
201 Route 17 North 2nd Floor Rutherford, NJ	**07070**
Address of Principal Executive Offices	Zip Code

(201) 528-9200
Registrant's Telephone Number, Including Area Code

Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report

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

Title of each class	Trading symbol	Name of exchange on which registered
Common Stock, $0.0001 par value per share	CGIX	NASDAQ Capital Market

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 every Interactive Data File required to be submitted 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 such files). Yes ☐ No ☐

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

Large accelerated filer	☐	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☐
		Emerging growth company	☐

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

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

As of November 9, 2020, there were 4,074,893 shares of common stock, par value $0.0001 of Cancer Genetics, Inc. outstanding.

CANCER GENETICS, INC. AND SUBSIDIARIES
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PART I — FINANCIAL INFORMATION

Item 1. Condensed Financial Statements (Unaudited)

Cancer Genetics, Inc. and Subsidiaries
Condensed Consolidated Balance Sheets (Unaudited)
(in thousands, except par value)

	September 30, 2020	December 31, 2019
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	**$ 1,133**	$ 3,880
Restricted cash	**—**	350
Accounts receivable	**773**	696
Earn-Out from siParadigm, net, current portion	**141**	747
Excess Consideration Note	**—**	888
Other current assets	**754**	546
Current assets of discontinuing operations	**—**	71
Total current assets	**2,801**	7,178
FIXED ASSETS, net of accumulated depreciation	**488**	558
OTHER ASSETS		
Operating lease right-of-use assets, net of accumulated amortization	**47**	94
Earn-Out from siParadigm, less current portion	**—**	356
Patents and other intangible assets, net of accumulated amortization	**2,563**	2,895
Investment in joint venture	**56**	92
Goodwill	**3,090**	3,090
Other	**645**	641
Total other assets	**6,401**	7,168
Total Assets	**$ 9,690**	$ 14,904
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	**$ 2,863**	$ 2,072
Obligations under operating leases, current portion	**38**	193
Obligations under finance leases, current portion	**53**	68
Deferred revenue	**798**	1,217
Note payable, net	**—**	1,277
Advance from NovellusDx, Ltd., net	**—**	350
Advance from siParadigm, current portion	**—**	566
Due to Interpace Biosciences, Inc.	**421**	—
Current liabilities of discontinuing operations	**578**	1,229
Total current liabilities	**4,751**	6,972
Obligations under operating leases, less current portion	**10**	10
Obligation under finance leases, less current portion	**79**	107
Advance from siParadigm, less current portion	**—**	252
Warrant liability	**45**	178
Total Liabilities	**4,885**	7,519
STOCKHOLDERS' EQUITY		
Preferred stock, authorized 9,764 shares, $0.0001 par value, none issued	**—**	**—**
Common stock, authorized 100,000 shares, $0.0001 par value, 2,506 and 2,104 shares issued and outstanding at September 30, 2020 and December 31, 2019, respectively	**—**	—
Additional paid-in capital	**173,517**	171,783

Accumulated other comprehensive income (loss)	**(56)**	26
Accumulated deficit	**(168,656)**	(164,424)
Total Stockholders' Equity	**4,805**	7,385
Total Liabilities and Stockholders' Equity	**$ 9,690**	$ 14,904

See Notes to Unaudited Condensed Consolidated Financial Statements.

Cancer Genetics, Inc. and Subsidiaries
Condensed Consolidated Statements of Operations and Other Comprehensive Loss (Unaudited)
(in thousands, except per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	**2020**	2019
Revenue	**$ 1,568**	$ 2,069	**$ 4,440**	$ 5,416
Cost of revenues	**912**	993	**2,366**	2,729
Gross profit	**656**	1,076	**2,074**	2,687
Operating expenses:				
General and administrative	**1,217**	1,239	**4,982**	4,205
Sales and marketing	**354**	322	**979**	824
Impairment of goodwill	**—**	2,873	**—**	2,873
Merger costs	**454**	284	**454**	284
Total operating expenses	**2,025**	4,718	**6,415**	8,186
Loss from operations	**(1,369)**	(3,642)	**(4,341)**	(5,499)
Other income (expense):				
Interest expense	**(108)**	(200)	**(283)**	(1,327)
Interest income	**—**	—	**4**	—
Change in fair value of acquisition note payable	**—**	5	**4**	12
Change in fair value of other derivatives	**—**	—	**—**	86
Change in fair value of warrant liability	**(19)**	34	**133**	233
Change in fair value of siParadigm Earn-Out	**(1)**	(982)	**(66)**	(982)
Other income (expense)	**146**	—	**251**	(11)
Total other income (expense)	**18**	(1,143)	**43**	(1,989)
Loss from continuing operations before income taxes	**(1,351)**	(4,785)	**(4,298)**	(7,488)
Income tax expense (benefit)	**2**	—	**8**	(512)
Loss from continuing operations	**(1,353)**	(4,785)	**(4,306)**	(6,976)
Income from discontinuing operations	**—**	6,760	**74**	561
Net income (loss)	**(1,353)**	1,975	**(4,232)**	(6,415)
Foreign currency translation gain (loss)	**(29)**	(120)	**(82)**	(161)
Comprehensive income (loss)	**$ (1,382)**	$ 1,855	**$ (4,314)**	$ (6,576)
Basic and diluted net loss per share from continuing operations	**$ (0.58)**	$ (2.38)	**$ (1.96)**	$ (3.77)
Basic and diluted net income per share from discontinuing operations	**—**	3.36	**0.03**	0.30
Basic and diluted net income (loss) per share	**$ (0.58)**	$ 0.98	**$ (1.93)**	$ (3.47)
Basic and diluted weighted-average shares outstanding	**2,328**	2,014	**2,193**	1,850

See Notes to Unaudited Condensed Consolidated Financial Statements.

Cancer Genetics, Inc. and Subsidiaries
Condensed Consolidated Statements of Changes in Stockholders' Equity (Unaudited)
(in thousands)

Three and Nine Months Ended September 30, 2020

	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total
	Shares	Amount				
Balance, January 1, 2020	2,104	$ —	$ 171,783	$ 26	$ (164,424)	$ 7,385
Stock based compensation—employees	—	—	58	—	—	58
Issuance of common stock—VenturEast settlement	3	—	12	—	—	12
Unrealized gain on foreign currency translation	—	—	—	104	—	104
Net loss	—	—	—	—	(1,179)	(1,179)
Balance, March 31, 2020	2,107	—	171,853	130	(165,603)	6,380
Stock based compensation—employees	—	—	47	—	—	47
Fair value of common stock exchanged to settle Note Payable	153	—	531	—	—	531
Unrealized loss on foreign currency translation	—	—	—	(157)	—	(157)
Net loss	—	—	—	—	(1,700)	(1,700)
Balance, June 30, 2020	2,260	—	172,431	(27)	(167,303)	5,101
Stock based compensation—employees	—	—	39	—	—	39
Fair value of common stock exchanged to settle Note Payable	246	—	1,047	—	—	1,047
Unrealized loss on foreign currency translation	—	—	—	(29)	—	(29)
Net loss	—	—	—	—	(1,353)	(1,353)
Balance, September 30, 2020	2,506	$ —	$ 173,517	$ (56)	$ (168,656)	$ 4,805

Three and Nine Months Ended September 30, 2019

	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total
	Shares	Amount				
Balance, January 1, 2019	924	$ —	$ 164,458	$ 60	$ (157,716)	$ 6,802
Stock based compensation—employees	—	—	158	—	—	158
Issuance of common stock - 2019 Offerings, net	952	—	5,412	—	—	5,412
Unrealized loss on foreign currency translation	—	—	—	(76)	—	(76)
Net loss	—	—	—	—	(4,617)	(4,617)
Balance, March 31, 2019	1,876	—	170,028	(16)	(162,333)	7,679
Stock based compensation—employees	—	—	102	—	—	102
Issuance of common stock - Iliad conversions	51	—	350	—	—	350
Increase in fair value of embedded conversion option	—	—	547	—	—	547
Unrealized gain on foreign currency translation	—	—	—	35	—	35
Net loss	—	—	—	—	(3,773)	(3,773)
Balance, June 30, 2019	1,927	—	171,027	19	(166,106)	4,940
Stock based compensation—employees	—	—	57	—	—	57
Issuance of common stock - Iliad exchanges	174	—	612	—	—	612
Unrealized gain on foreign currency translation	—	—	—	(120)	—	(120)
Net loss	—	—	—	—	1,975	1,975
Balance, September 30, 2019	2,101	$ —	$ 171,696	$ (101)	$ (164,131)	$ 7,464

See Notes to Unaudited Condensed Consolidated Financial Statements.

Cancer Genetics, Inc. and Subsidiaries
Condensed Consolidated Statements of Cash Flows (Unaudited)
(in thousands)

	Nine Months Ended September 30,	
	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	**$ (4,232)**	$ (6,415)
Income from discontinuing operations	**(74)**	(561)
Net loss from continuing operations	**(4,306)**	(6,976)
Adjustments to reconcile net loss to net cash used in operating activities, continuing operations:		
Depreciation	**130**	53
Amortization	**332**	328
Stock-based compensation	**152**	226
Impairment of goodwill	**—**	2,873
Change in fair value of warrant liability, acquisition note payable and other derivatives	**(137)**	(331)
Amortization of operating lease right-of-use assets	**154**	123
Change in fair value of siParadigm Earn-Out	**66**	982
Amortization of discount on debt and debt issuance costs	**71**	470
Loss on extinguishment of debt	**120**	256
Interest added to Convertible Note	**—**	268
Changes in:		
Accounts receivable	**(72)**	(36)
Other current assets	**(203)**	(422)
Other non-current assets	**(3)**	(2)
Accounts payable, accrued expenses and deferred revenue	**400**	1,516
Due to Interpace Biosciences, Inc.	**421**	—
Obligations under operating leases	**(183)**	(156)
Net cash used in operating activities, continuing operations	**(3,058)**	(828)
Net cash used in operating activities, discontinuing operations	**(514)**	(5,309)
Net cash used in operating activities	**(3,572)**	(6,137)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of fixed assets	**(39)**	(21)
Distribution from Joint Venture	**36**	—
Receipts from Excess Consideration Note	**888**	—
Net cash provided by (used in) investing activities, continuing operations	**885**	(21)
Net cash provided by investing activities, discontinuing operations	**78**	3,044
Net cash provided by investing activities	**963**	3,023
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on obligations under finance leases	**(66)**	(36)
Proceeds from offerings of common stock, net of certain offering costs	**—**	5,412
Payments on Advance from NovellusDx, Ltd.	**(350)**	—
Net cash provided by (used in) financing activities, continuing operations	**(416)**	5,376
Net cash used in financing activities, discontinuing operations	**—**	(115)
Net cash provided by (used in) financing activities	**(416)**	5,261

Effect of foreign exchange rates on cash and cash equivalents and restricted cash	**(72)**	(161)
Net increase (decrease) in cash and cash equivalents and restricted cash	**(3,097)**	1,986
CASH AND CASH EQUIVALENTS AND RESTRICTED CASH		
Beginning	**4,230**	511
Ending	**$ 1,133**	$ 2,497
RECONCILIATION OF CASH AND CASH EQUIVALENTS AND RESTRICTED		
CASH TO THE CONSOLIDATED BALANCE SHEETS:		
Cash and cash equivalents	**$ 1,133**	$ 2,147
Restricted cash	**—**	350
CASH AND CASH EQUIVALENTS AND RESTRICTED CASH	**$ 1,133**	$ 2,497
SUPPLEMENTAL CASH FLOW DISCLOSURE		
Cash paid for interest	**$ 11**	$ 1,185
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Common stock issued in VentureEast settlement	**$ 12**	$ —
Fair value of common stock exchanged to settle Note Payable	**1,578**	—
Right of use assets obtained through operating leases	**27**	—
Fixed assets obtained through finance leases	**17**	145
Conversion of debt and accrued interest into common stock	**—**	350
Increase in fair value of conversion option	**—**	547
Exchanges of principal on Convertible Note for common stock	**—**	612
Disposal of Clinical Business:		
Goodwill	$ —	$ 1,188
Accounts payable and accrued expenses	**—**	(287)
Gain on disposal of Clinical Business	**—**	1,222
Earn-Out from siParadigm	**—**	(2,269)
Advance from siParadigm, net of repayments	**—**	974
Net cash received in disposal of Clinical Business	$ —	$ 828
Disposal of BioPharma Business:		
Accounts receivable	$ —	$ 4,145
Other current assets	**—**	1,142
Fixed assets	**—**	2,998
Operating lease right-of-use assets	**—**	1,969
Patents and other intangible assets	**—**	42
Goodwill	**—**	10,106
Accounts payable and accrued expenses	**—**	(6,351)
Obligations under operating leases	**—**	(2,110)
Obligations under finance leases	**—**	(451)
Deferred revenue	**—**	(1,046)
Line of credit	**—**	(2,665)
Term note	**—**	(6,000)
Gain on disposal of BioPharma Business	**—**	7,274
Note receivable from IDXG	**—**	(6,795)
Net cash received in disposal of BioPharma Business	$ —	$ 2,258

See Notes to Unaudited Condensed Consolidated Financial Statements.

Notes to Unaudited Condensed Consolidated Financial Statements

Note 1. Organization, Description of Business, Merger Agreement, Basis of Presentation, Reclassifications, Reverse Stock Split and Business Disposals

Cancer Genetics, Inc. (the "Company" or "CGI") supports the efforts of the biotechnology and pharmaceutical industries to develop innovative new drug therapies. Until the closing of the Business Disposals (as defined below) in July 2019, the Company was an emerging leader in enabling precision medicine in oncology by providing multi-disciplinary diagnostic and data solutions, facilitating individualized therapies through its diagnostic tests, services and molecular markers. Following the Business Disposals described below, the Company currently has an extensive set of anti-tumor referenced data based on predictive xenograft and syngeneic tumor models from the acquisition of *vivo*Pharm, Pty Ltd. ("*vivo*Pharm") in 2017, to provide Discovery Services such as contract research services, focused primarily on unique specialized studies to guide drug discovery and development programs in the oncology and immuno-oncology fields.

The Company was incorporated in the State of Delaware on April 8, 1999 and, until the Business Disposals, had offices and state-of-the-art laboratories located in New Jersey and North Carolina and today continues to have laboratories in Pennsylvania and Australia. The Company's corporate headquarters are in Rutherford, New Jersey. The Company offers preclinical services such as predictive tumor models, human orthotopic xenografts and syngeneic immuno-oncology relevant tumor models in its Hershey PA facility, and is a leader in the field of immuno-oncology preclinical services in the United States. This service is supplemented with GLP toxicology and extended bioanalytical services in its Australian-based facilities in Clayton, Victoria. Beginning in February 2020, the Company also has an animal testing facility and laboratory in Gilles Plains, South Australia, Australia.

Merger Agreement

On August 24, 2020, the Company announced the entry into an Agreement and Plan of Merger and Reorganization dated August 21, 2020 ("Merger Agreement") between the Company, StemoniX, Inc., a Minnesota corporation ("StemoniX"), and CGI Acquisition, Inc., a Minnesota corporation and wholly-owned subsidiary of the Company ("Merger Sub"), pursuant to which Merger Sub will merge with and into StemoniX, with StemoniX surviving the merger and becoming a direct, wholly-owned subsidiary of the Company (the "Merger"). The transaction is structured as a reverse merger with StemoniX as the acquirer for accounting purposes.

Pursuant to, and subject to the conditions of, the Merger Agreement, each share of common stock of StemoniX (other than Dissenting Shares (as defined in the Merger Agreement)), issued and outstanding immediately prior to the effective time of the Merger (the "Effective Time") shall be automatically converted into the right to receive an amount of shares of common stock, par value $0.0001 per share, of the Company ("CGI Common Stock") equal to the Exchange Ratio (as defined in the Merger Agreement). All options to purchase shares of StemoniX Common Stock ("StemoniX Options") outstanding immediately prior to the Effective Time, whether vested or unvested, will be converted into a stock option to purchase shares of CGI Common Stock, proportionately adjusted based on the Exchange Ratio. All warrants to purchase shares of StemoniX Common Stock ("StemoniX Warrants") outstanding immediately prior to the Effective Time will be cancelled and converted into the right to receive the same consideration such warrantholder would have received had they exercised the StemoniX Warrants immediately prior to the merger, based on the Exchange Ratio, net of the exercise price. As a result, immediately following the Effective Time, but prior to the proportionate dilution to come from the contemplated private placement that is a condition of the merger (the "Private Placement"), the former StemoniX shareholders will hold approximately 78% of the outstanding shares of CGI Common Stock (which outstanding shares, the "Deemed Outstanding Shares", in this context, includes the CGI Common Stock issuable on a net exercise basis with respect to any in-the-money CGI options, in-the-money CGI warrants, in-the-money StemoniX Options and in-the-money StemoniX Warrants but does not include any shares issued in the Private Placement) and the stockholders of CGI, will retain ownership of approximately 22% of the Deemed Outstanding Shares, with such percentages subject to certain closing adjustments based on the Net Cash (as defined in the Merger Agreement) held by each company (such adjustment, the "Net Cash Adjustment") and, proportionately for all equity holders of the post-merger company, dilution from the Private Placement. The exact number of shares of CGI Common Stock that will be issued to StemoniX shareholders will be fixed immediately prior to the Effective Time to reflect the capitalization of CGI as of immediately prior to such time as well as the Net Cash Adjustment.

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information and with the instructions for interim reporting as prescribed by the Securities and Exchange Commission ("SEC"). Accordingly,

they do not include all of the information and footnotes required by GAAP 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, 2019, filed with the SEC on May 29, 2020. The condensed consolidated balance sheet as of December 31, 2019, included herein was derived from the audited financial statements as of that date, but does not include all disclosures including notes required by GAAP. Interim financial results are not necessarily indicative of the results that may be expected for any future interim period or for the year ending December 31, 2020.

Reclassifications

Certain items in the prior year consolidated financial statements have been reclassified to conform to the current presentation.

Reverse Stock Split

On October 24, 2019, the Company amended its Certificate of Incorporation and effected a 30-for-1 reverse stock split of its common stock. All shares and per share information referenced throughout the condensed consolidated financial statements and footnotes have been retrospectively adjusted to reflect the reverse stock split.

Business Disposals - Discontinuing Operations

Interpace Diagnostics Group, Inc.

On July 15, 2019, the Company entered into a secured creditor asset purchase agreement (the "BioPharma Agreement") by and among the Company, Gentris, LLC, a wholly-owned subsidiary of the Company, Partners for Growth IV, L.P. ("PFG"), Interpace Biosciences, Inc. ("IDXG") and a newly-formed subsidiary of IDXG, Interpace BioPharma, Inc. ("Buyer"). The BioPharma Agreement provided for a consensual private foreclosure sale by PFG of all assets relating to the Company's BioPharma Business (as defined in the BioPharma Agreement) to Buyer (the "BioPharma Disposal").

Pursuant to the BioPharma Agreement, Buyer purchased from PFG certain assets and assumed certain liabilities of the Company relating to the BioPharma Business, providing as gross consideration $23.5 million, less certain closing adjustments totaling $2.0 million, of which $7.7 million was settled in the form of a promissory note issued by Buyer to the Company (the "Excess Consideration Note") and the remainder was paid to PFG in cash. PFG utilized the cash proceeds to satisfy the outstanding balances of the Silicon Valley Bank ("SVB") asset-based revolving line of credit ("ABL") and the $6.0 million term note to PFG ("PFG Term Note"), and to satisfy certain transaction expenses. The balance of $2.3 million was delivered to the Company in addition to the Excess Consideration Note.

The Excess Consideration Note, which required interest-only quarterly payments at a rate of 6% per year, matured in October 2019 and was settled on October 24, 2019 for $6.0 million, including interest of $24 thousand. The Buyer withheld from the settlement of the Excess Consideration Note approximately $775 thousand for a net worth adjustment (assets less liabilities) of the BioPharma business ("Net Worth"), $153 thousand to secure collection of certain older accounts receivable of the Company purchased by Buyer ("AR Holdback") and an additional $735 thousand as security for indemnification obligations of the Company for any breaches of certain limited warranties and covenants of the Company and other specified items ("Indemnification Holdback"). The Company received the full amounts of the AR Holdback and the Indemnification Holdback in April and May 2020.

The Company and Buyer also entered into a transition services agreement (the "TSA") pursuant to which the Company and Buyer are providing certain services to each other to accommodate the transition of the BioPharma Business to Buyer. In particular, the Company agreed to provide to Buyer, among other things, certain personnel services, payroll processing, administration services and benefit administration services, for a reasonable period commencing July 15, 2019, subject to the terms and conditions of the TSA, in exchange for payment or reimbursement, as applicable, by Buyer for the costs related thereto, including salaries and benefits for certain of the Company's BioPharma employees during the transition period. The Buyer paid for certain costs of the Company under the TSA with respect to a limited number of employees and professionals. Such shared services amounted to $10 thousand and $208 thousand for the quarter and the nine months ended September 30, 2020, respectively. In addition, the Buyer was reimbursing the Company, in part, for the salaries and benefits of John A. Roberts, the Company's Chief Executive Officer, and Glenn Miles, the Company's Chief Financial Officer through July 2020. The reimbursed portion of such salaries and benefits amounted to $5 thousand and $155 thousand for the quarter and nine months ended September 30, 2020, respectively. Including the amounts due under the TSA described above, the net amount due

to the Buyer is approximately $421 thousand at September 30, 2020. The TSA will continue until a mutually-agreed upon end date.

In connection with the closing of the BioPharma Disposal, the SVB ABL and the PFG Term Note were terminated, and all related liens were released.

siParadigm, Inc.

On July 5, 2019, the Company entered into an asset purchase agreement (the "Clinical Agreement") by and among the Company and siParadigm, LLC ("siParadigm"), pursuant to which the Company sold to siParadigm, certain assets associated with the Company's clinical laboratory business (the "Clinical Business," and such assets, the "Designated Assets"), and agreed to cease operating its Clinical Business. The Designated Assets include intellectual property, equipment and customer lists associated with the Clinical Business. The cash consideration paid by siParadigm at closing was approximately $747 thousand, which includes approximately $45 thousand for certain equipment plus a $1.0 million advance payment of the Earn-Out (as defined below), less adjustments and costs of approximately $298 thousand. The Clinical Business sale (together with the BioPharma Disposal, the "Business Disposals") was completed on July 8, 2019.

The Earn-Out, to be paid over the 24 months post-closing, is based on fees for all tests performed by siParadigm for the Company's clinical customers during the 12-month period following the closing (the "Earn-Out"). The Company has netted the Earn-out and Advance from siParadigm as of September 30, 2020 as all amounts are fixed and determinable and the Company and siParadigm intend to offset. At September 30, 2020, the net Earn-Out receivable from siParadigm was approximately $141 thousand.

Under the Clinical Agreement, the Company agreed to certain non-competition and non-solicitation provisions, including that it cease performing certain clinical tests and will not solicit or seek business from certain of its customers (other than for the Company's other lines of business) for a period of three years following the closing date (through July 2022).

The Business Disposals have been classified as discontinuing operations in conformity with GAAP. Accordingly, BioPharma and Clinical operations and balances have been reported as discontinuing operations and removed from all financial disclosures of continuing operations. As permitted by Accounting Standards Codification ("ASC") 205-20, the Company elected to allocate approximately $22 thousand and $1.5 million of interest expense on the convertible promissory note ("Convertible Note") to Iliad Research and Trading, L.P. ("Iliad") and Advance from NovellusDx, Ltd. ("NDX") that was not required to be repaid to discontinuing operations during the three and nine months ended September 30, 2019, respectively. Unless otherwise indicated, information in these notes to unaudited condensed consolidated financial statements relates to continuing operations.

Note 2. Going Concern

At September 30, 2020, the Company's history of losses required management to assess its ability to continue operating as a going concern, according to ASC 2015-40, *Going Concern*. Even after the disposal of the Company's BioPharma Business and Clinical Business discussed in Note 1, the Company does not project that cash at September 30, 2020 along with the proceeds from the October 2020 offering will be sufficient to fund normal operations for the twelve months from the issuance of these financial statements in the Quarterly Report on Form 10-Q. Absent the Merger, the Company's ability to continue as a going concern is dependent on reduced losses and improved future cash flows. Alternatively, the Company may be required to raise additional equity or debt capital, or consummate other strategic transactions. These factors raise substantial doubt about the Company's ability to continue as a going concern for the twelve months from the issuance of these financial statements in the Quarterly Report on Form 10-Q. The Company can provide no assurance that these actions will be successful or that additional sources of financing will be available on favorable terms, if at all.

The condensed consolidated financial statements do not include any adjustments that might be necessary should the Company be unable to continue as a going concern.

On March 11, 2020 the World Health Organization declared the novel strain of coronavirus ("COVID-19") a global pandemic and recommended containment and mitigation measures worldwide. In addition, the Company is located in New Jersey and was under a shelter-in-place mandate. Many of the Company's customers worldwide were similarly impacted. The global outbreak of the COVID-19 continues to rapidly evolve, and the extent to which the COVID-19 may impact the Company's business will depend on future developments, which are highly uncertain and cannot be predicted with confidence, such as the ultimate geographic spread of the disease, the duration of the outbreak, travel restrictions and social distancing in the United States and other countries, business closures or business disruptions, and the effectiveness of actions taken in the United States and other countries to contain and treat the disease. As a healthcare provider, the Company is still providing Discovery Services and

began to experience a slowdown in project work as a result of the COVID-19 pandemic during the third quarter of 2020 and expects the progress of many projects may be delayed. The Company continues to vigilantly monitor the situation with its primary focus on the health and safety of its employees and clients.

In response to COVID-19, the Australian government has provided the Company various grants totaling $251 thousand. The Job Keeper Allowance was provided to supplement employee wages and totaled $99 thousand and $155 thousand for the three and nine months ended September 30, 2020, respectively. An additional $47 thousand and $90 thousand relates to cash boost payments received as a reimbursement of payroll taxes during the three and nine months ended September 30, 2020, respectively. The final $6 thousand relates to small business grants received during the nine months ended September 30, 2020. These grants are recorded as other income.

Note 3. Discontinuing Operations

As described in Note 1, the Company sold its BioPharma Business and Clinical Business in July 2019. In conjunction with the BioPharma Disposal, the Company repaid its debt to SVB and PFG. The Company elected to allocate approximately $22 thousand and $1.5 million of interest expense from the Convertible Note and Advance from NDX to discontinuing operations during the three and nine months ended September 30, 2019. Revenue and other significant accounting policies associated with the discontinuing operations have not changed since the most recently filed audited financial statements as of and for the year ended December 31, 2019.

Summarized results of the Company's unaudited condensed consolidated discontinuing operations are as follows for the three and nine months ended September 30, 2020 and 2019 (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	**2020**	2019
Revenue	**$ —**	$ 428	**$ —**	$ 10,066
Cost of revenues	**—**	567	**—**	7,667
Gross profit	**—**	(139)	**—**	2,399
Operating expenses:				
Research and development	**—**	47	**—**	937
General and administrative	**(9)**	796	**(83)**	4,306
Sales and marketing	**—**	15		1,528
Restructuring costs	**—**	100	**—**	100
Transaction costs	**9**	—	**9**	651
Impairment of patents and other intangible assets	**—**	601	**—**	601
Total operating expenses	**—**	1,559	**(74)**	8,123
Income (loss) from discontinuing operations	**—**	(1,698)	**74**	(5,724)
Other income (expense):				
Interest expense	**—**	(38)	**—**	(2,211)
Gain on disposal of Clinical Business	**—**	1,222	**—**	1,222
Gain on disposal of BioPharma Business	**—**	7,274	**—**	7,274
Total other income (expense)	**—**	8,458	**—**	6,285
Net income (loss) from discontinuing operations	**$ —**	$ 6,760	**$ 74**	$ 561

Unaudited condensed consolidated carrying amounts of major classes of assets and liabilities from discontinuing operations were as follows as of September 30, 2020 and December 31, 2019 (in thousands):

	September 30, 2020	December 31, 2019
Current assets of discontinuing operations:		
Accounts receivable, net of allowance for doubtful accounts of $4,518 in 2020; $4,536 in 2019	**$ —**	$ 71
Current assets of discontinuing operations	**$ —**	$ 71
Current liabilities of discontinuing operations		
Accounts payable and accrued expenses	**$ 578**	$ 1,137
Due to Interpace Biosciences, Inc.	**—**	92
Current liabilities of discontinuing operations	**$ 578**	$ 1,229

Cash flows used in operating activities of discontinuing operations consisted of the following for the nine-months ended September 30, 2020 and 2019 (in thousands):

	Nine Months Ended September 30,	
	2020	2019
Income from discontinuing operations	**$ 74**	$ 561
Adjustments to reconcile income from discontinuing operations to net cash used in operating activities, discontinuing operations		
Depreciation	**—**	542
Amortization	**—**	613
Provision for bad debts	**(28)**	323
Accounts payable settlements	**(43)**	—
Stock-based compensation	**(8)**	91
Amortization of operating lease right-of-use assets	**—**	436
Amortization of discount of debt and debt issuance costs	**—**	601
Loss on extinguishment of debt	**—**	328
Interest added to Convertible Note	**—**	343
Gain on disposal of Clinical buisness	**—**	(1,222)
Gain on disposal of BioPharma buisness	**—**	(7,274)
Change in working capital components:		
Accounts receivable	**99**	711
Other current assets	**—**	277
Other non-current assets	**—**	2
Accounts payable, accrued expenses and deferred revenue	**(516)**	(1,273)
Obligations under operating leases	**—**	(368)
Due to Interpace Biosciences, Inc.	**(92)**	—
Net cash used in operating activities, discontinuing operations	**$ (514)**	$ (5,309)

Note 4. Revenue

The Company has remaining performance obligations as of September 30, 2020 and December 31, 2019 of $798 thousand and $1.2 million, respectively. Deferred revenue of $1.2 million from December 31, 2019 was recognized as revenue in the nine

months ended September 30, 2020. Of the remaining performance obligations as of September 30, 2020, approximately $798 thousand are expected to be recognized as revenue in the next twelve months.

During the three and nine months ended September 30, 2020,four customers accounted for approximately 66% and 63%, respectively, of the Company's consolidated revenue from continuing operations. During the three and nine months ended September 30, 2019, four customers accounted for approximately 83% and 79%, respectively, of the Company's consolidated revenue from continuing operations.

During the three and nine months ended September 30, 2020, approximately58% and 35%, respectively, of the Company's continuing operations revenue was earned outside the United States and collected in local currency. During the three and nine months ended September 30, 2019, those amounts were approximately 22% and 24%.

Note 5. Earnings Per Share

For purposes of this calculation, stock warrants, outstanding stock options, convertible debt and unvested restricted shares are considered common stock equivalents using the treasury stock method, and are the only such equivalents outstanding. For all periods presented, all common stock equivalents outstanding were anti-dilutive.

The following table summarizes equivalent units outstanding that were excluded from the earnings per share calculation because their effects were anti-dilutive (in thousands):

	Three Months Ended September 30,		**Nine Months Ended September 30,**	
	2020	2019	**2020**	2019
Common stock purchase warrants	**279**	279	**279**	279
Stock options	**71**	68	**71**	68
Convertible Note	—	206	—	206
Advance from NDX	—	98	—	98
	350	651	**350**	651

Note 6. Leasing Arrangements

Operating Leases

The Company leases its laboratory, research facility and administrative office space under various operating leases. The Company also leases scientific equipment under various finance leases. Following the Business Disposals, the Company has assigned its office leases in North Carolina and New Jersey to Buyer.

The Company determines if an arrangement is a lease at inception. Operating leases are included in operating lease right-of-use (“ROU”) assets, operating lease liabilities, and operating lease liabilities, non-current on its unaudited condensed consolidated balance sheets. Finance leases are included in fixed assets, net of accumulated depreciation and obligations under finance leases.

ROU assets represent the Company's right to use an underlying asset for the lease term and lease obligations represent the Company's obligation to make lease payments arising from the lease. Operating lease ROU assets and operating lease obligations are recognized based on the present value of the future minimum lease payments over the lease term at the commencement date. As the Company's leases do not provide an implicit rate, the Company uses its incremental borrowing rate based on the information available at the commencement date in determining the present value of lease payments. The Company's incremental borrowing rate was determined by adjusting its secured borrowing interest rate for the longer-term nature of its leases. The Company's variable lease payments primarily consist of maintenance and other operating expenses from its real estate leases. Variable lease payments are excluded from the ROU assets and lease liabilities and are recognized in the period in which the obligation for those payments is incurred. The operating lease ROU asset also includes any lease payments made and excludes lease incentives incurred. The Company's lease terms may include options to extend or terminate the lease when it is reasonably certain that the Company will exercise that option. Lease expense for minimum lease payments is recognized on a straight-line basis over the lease term.

The Company has lease agreements with lease and non-lease components. The Company has elected to account for these lease and non-lease components as a single lease component. The Company is also electing not to apply the recognition requirements

to short-term leases of twelve months or less and instead will recognize lease payments as expense on a straight-line basis over the lease term.

The components of operating and finance lease expense were as follows for the three and nine months ended September 30, 2020 and 2019, respectively, for continuing operations (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	**2020**	2019
Finance lease cost:				
Amortization of right-of use assets	$ 25	11	59	27
Interest on lease liabilities	3	4	10	9
Operating lease cost	60	43	176	130
Short-term lease cost	40	14	85	68
Variable lease cost	17	29	35	74
	$ 145	$ 101	$ 365	$ 308

Supplemental cash flow related to leases of the Company's continuing operations was as follows for the three and nine months ended September 30, 2020 and 2019 (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	**2020**	2019
Cash paid amounts included in the measurement of lease liabilities:				
Operating cash flows used for operating leases	$ 59	$ 54	$ 175	$ 164
Financing cash flows used for finance leases	43	11	66	36

Other supplemental information related to leases of the Company's continuing operations was as follows at September 30, 2020 and 2019, respectively:

	Nine months ended September 30, 2020	**Nine months ended September 30, 2019**
Weighted average remaining lease term (in years)		
Operating leases	1.31	1.24
Finance leases	3.04	3.97
Weighted average discount rate		
Operating leases	8.18 %	7.97 %
Finance leases	8.54 %	9.07 %

At September 30, 2020, future estimated minimum lease payments under non-cancelable operating leases were as follows (in thousands):

	Finance Leases	Operating Leases	Total
2020 (remaining 3 months)	$ 22	$ 26	$ 48
2021	46	24	70
2022	36	12	48
2023	36	2	38
2024	9	—	9
Total minimum lease payments	$ 149	64	213
Less amount representing interest	17	16	33
Present value of net minimum obligations	132	48	180
Less current obligation under finance and operating leases	53	38	91
Long-term obligation under finance and operating leases	$ 79	$ 10	$ 89

Note 7. Financing

Advance from NDX

On September 18, 2018, the Company entered into a merger agreement with NDX. In connection with signing the merger agreement, NDX loaned the Company $1.5 million. On October 21, 2019, the Company and NDX entered into a settlement agreement ("NDX Settlement Agreement"). The NDX Settlement Agreement required the Company to pay $100 thousand on the date of execution and $1.0 million upon receipt of proceeds from the Excess Consideration Note. The $1.0 million payment was made in October 2019. As a result of such payment, pursuant to the NDX Settlement Agreement, the balance of the Advance from NDX was reduced to $ 450 thousand and each party released the other from all claims under the original credit agreement and the Merger Agreement. The remaining amount due was to be paid in nine monthly payments of $50 thousand commencing in November 2019. If the Company fails to make any of the required monthly payments, NDX may convert all, but not less than all, of the amounts then owing into a number of shares of the Company's common stock at a conversion price of $4.50 per share. The NDX Settlement Agreement adjusted the interest rate of the obligation to 0%. In July 2020, the Company paid the final $50 thousand on the Advance from NDX.

Atlas Sciences Note

In October 2019, the Company entered into a twelve-month unsecured promissory note with Atlas Sciences, LLC ("Atlas Sciences") of $1.3 million (the "Atlas Sciences Note"). The Atlas Sciences Note resulted in cash receipts of $ 1.3 million, reflecting an original issue discount of $88 thousand and expenses payable by the Company of $10 thousand. The Atlas Sciences Note has a 12-month term and bears interest at 10% per annum. Atlas Sciences may redeem any portion of the note, at any time after six months from the issuance date upon three business days' notice, subject to a monthly maximum redemption amount of $300 thousand. The Company may prepay the Atlas Sciences Note at any time without penalty. Upon the occurrence of an event of default, the interest rate will be adjusted to 22% per annum.

Between June 3, 2020 and June 9, 2020, the Company issued an aggregate of approximately 153 thousand shares of the Company's common stock, with a fair value of $531 thousand, to Atlas Sciences in exchange for the return to the Company of $500 thousand of principal amount from its unsecured promissory note. Between July 23, 2020 and September 23, 2020, the Company issued an aggregate of approximately 246 thousand shares of the Company's common stock, with a fair value of $1.05 million, to Atlas Sciences in exchange for the return to the Company of the remaining principal and interest from its unsecured promissory note.

Note 8. Stock-Based Compensation

The Company has 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 Stock Option Plans are meant to provide additional incentive to officers, employees and consultants to remain in the Company's employment. Options granted are generally exercisable for up to 10 years. Effective April 9, 2018, the Company cannot issue additional options from the 2008 Plan.

At September 30, 2020, 25 thousand shares remain available for future awards under the 2011 Plan. On January 2, 2020, the Company granted 20 thousand options to key employees. The options will vest in equal monthly installments over the next twelve months and have an exercise price of $5.53 per share.

A summary of employee and non-employee stock option activity for the nine months ended September 30, 2020 for both continuing and discontinuing employees is as follows:

	Options Outstanding			
	Number of Shares (in thousands)	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in thousands)
Outstanding January 1, 2020	64	$ 113.63	7.48	$ 24
Granted	20	5.53		
Cancelled or expired	(13)	109.42		
Outstanding September 30, 2020	71	$ 83.90	6.76	$ —
Exercisable September 30, 2020	59	$ 98.42	6.38	$ —

Aggregate intrinsic value represents the difference between the fair value of the Company's common stock and the exercise price of outstanding, in-the-money options.

As of September 30, 2020, total unrecognized compensation cost related to non-vested stock options granted to employees was approximately $10 thousand for continuing operations, which the Company expect to recognize over the next 1.81 years.

The fair value of options granted to employees is estimated on the grant date using the Black-Scholes option valuation model. This valuation model requires the Company to make assumptions and judgments about the variables used in the calculation, including the expected term (the period of time that the options granted are expected to be outstanding), the volatility of the Company's common stock, a risk-free interest rate, and expected dividends. Forfeitures will be recorded when they occur. No compensation cost is recorded for options that do not vest. Due to significant changes in the Company's business, the Company used the simplified calculation of expected life described in the SEC's Staff Accounting Bulletin No. 107, *Share-Based Payment*, and volatility is based on the historical volatility of the Company's common stock. 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. The Company used an expected dividend yield of zero, as it does not anticipate paying any dividends in the foreseeable future.

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

	Three Months Ended September 30,	Nine Months Ended September 30,	
	2019	2020	2019
Volatility	94.57 %	110.43 %	93.86 %
Risk free interest rate	1.84 %	1.68 %	1.95 %
Dividend yield	0.00 %	0.00 %	0.00 %
Term (years)	5.27	5.27	5.44
Weighted-average fair value of options granted during the period	$ 3.23	$ 4.45	$ 4.32

The Company did not grant stock options during the three months ended September 30, 2020.

Restricted stock awards have been granted to employees, directors and consultants as compensation for services. At September 30, 2020, there was no unrecognized compensation cost related to non-vested restricted stock granted to employees and directors.

The TSA with Buyer described in Note 1 requires the Company to continue to employ individuals who will transfer to Buyer no later than six months from the closing of the transaction. Stock-based compensation related to these employees is included in discontinuing operations. The following table presents the effects of stock-based compensation related to stock option and

restricted stock awards to employees and non-employees on the Company's continuing operations included in its Unaudited Condensed Consolidated Statements of Operations and Other Comprehensive Loss during the periods presented (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	**2020**	2019
Cost of revenues	**$ 3**	$ 4	**$ 10**	$ 12
General and administrative	**36**	36	**142**	214
Total stock-based compensation related to continuing operations	**$ 39**	$ 40	**$ 152**	$ 226

During the nine months ended September 30, 2020, the Company recognized approximately $(8) thousand of stock-based compensation (benefit) related to discontinuing operations. During the three and nine months ended September 30, 2019, the Company recognized approximately $35 thousand and $91 thousand, respectively, of stock-based compensation related to discontinuing operations.

Note 9. Warrants

The following table summarizes the warrant activity for the nine months ended September 30, 2020 (in thousands, except exercise price):

Issued With / For	Exercise Price	Warrants Outstanding January 1, 2020	2020 Warrants Issued	2020 Warrants Expired	Warrants Outstanding September 30, 2020
Non-Derivative Warrants:					
Financing	$ 300.00	8	—	—	8
Financing	450.00	9	—	—	9
2015 Offering	150.00	115	—	—	115
2017 Debt	27.60	15	—	—	15
2019 Offering	7.43	31	—	—	31
2019 Offering	7.59	35	—	—	35
Total non-derivative warrants	115.54 B	213	—	—	213
Derivative Warrants:					
2016 Offerings	67.50 A	66	—	—	66
Total derivative warrants	67.50 B	66	—	—	66
Total	$ 104.18 B	279	—	—	279

A These warrants are subject to fair value accounting and contain a contingent net cash settlement feature. See Note 10.
B Weighted-average exercise prices are as of September 30, 2020.

Note 10. Fair Value of Warrants

The following table summarizes the derivative warrant activity subject to fair value accounting for the nine months ended September 30, 2020 (in thousands):

Issued with/for	**Fair value of warrants outstanding as of December 31, 2019**	**Change in fair value of warrants**	**Fair value of warrants outstanding as of September 30, 2020**
2016 Offerings	$ 178	$ (133)	$ 45

The derivative warrants issued as part of the 2016 Offerings are valued using a probability-weighted Binomial model.The following tables summarize the assumptions used in computing the fair value of derivative warrants subject to fair value accounting at September 30, 2020 and December 31, 2019.

2016 Offerings	As of September 30, 2020	As of December 31, 2019
Exercise price	$ 67.50	$ 67.50
Expected life (years)	1.33	2.08
Expected volatility	164.40 %	150.69 %
Risk-free interest rate	0.12 %	1.58 %
Expected dividend yield	— %	— %

Note 11. 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 the Company's 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 the Company has the ability to access as of the measurement date.

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

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

The following table summarizes the financial assets and 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 (in thousands):

	September 30, 2020			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Liabilities:				
Warrant liability	**$ 45**	**$ —**	**$ —**	**$ 45**
	$ 45	**$ —**	**$ —**	**$ 45**

	December 31, 2019			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Earn-Out from siParadigm	$ 1,103	$ —	$ —	$ 1,103
	$ 1,103	$ —	$ —	$ 1,103
Liabilities:				
Warrant liability	$ 178	$ —	$ —	$ 178
Notes payable	16	—	—	16
	$ 194	$ —	$ —	$ 194

At December 31, 2019, the Company had a liability payable to VenturEast from a prior acquisition. The liability to VenturEast was settled during the nine months ended September 30, 2020 with 3 thousand shares of common stock at a value of $4.20 per common share and following two payments of $50 thousand. The cash payments were recorded in general and administrative expense on the consolidated statement of operations and other comprehensive loss. During the three months ended September 30, 2020 and 2019, the Company recognized gains of approximately $0 and $5 thousand, respectively, due to the change in value of the note. During nine months ended September 30, 2020 and 2019, the Company recognized gains of approximately $4 thousand and $12 thousand, respectively, due to the change in value of the note.

At September 30, 2020, the warrant liability consists of stock warrants issued as part of the 2016 Offerings that contain contingent net settlement features. In accordance with derivative accounting for warrants, the Company calculated the fair value of warrants and the assumptions used are described in Note 10, “Fair Value of Warrants.” During the three months ended September 30, 2020 and 2019, the Company recognized gains (losses) of approximately $(19) thousand and $34 thousand, respectively, on the derivative warrants due to the increase or decrease in its stock price. During nine months ended September 30, 2020 and 2019, the Company recognized gains of approximately $133 thousand and $233 thousand, respectively, on the derivative warrants due to the decrease in its stock price.

At September 30, 2020, the earn-out amount from siParadigm was fixed and no longer subject to fair value accounting.

Realized and unrealized gains and losses related to the change in fair value of the earn-out receivable from siParadigm, VenturEast note and warrant liability are included in other income (expense) on the Unaudited Condensed Consolidated Statements of Operations and Other Comprehensive Loss.

The following table summarizes the activity of the earn-out receivable from siParadigm, the note payable to VenturEast and of the Company's derivative warrants, which were measured at fair value using Level 3 inputs (in thousands):

	Assets	Liabilities	
	Earn-Out from siParadigm	Note Payable to VenturEast	Warrant Liability
Fair value at January 1, 2020	$ 1,103	$ 16	$ 178
Receipts received during period	(288)	—	—
Change in fair value	(66)	(4)	(133)
Removed from fair value accounting	(749)	—	—
Settlement of liability	—	(12)	—
Fair value at September 30, 2020	$ —	$ —	$ 45

Note 12. Joint Venture Agreement

In November 2011, the Company entered into an affiliation agreement with the Mayo Foundation for Medical Education and Research ("Mayo"), subsequently amended. Under the agreement, the Company 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").

The agreement requires aggregate capital contributions by the Company of up to $6.0 million, of which $2.0 million has been paid to date. The timing of the remaining installments is 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 takes 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 $6.0 million. Mayo's continued contribution will also be conditioned upon the JV's achievement of certain milestones.

The Company has a net receivable due from the JV of approximately $10 thousand at September 30, 2020, which is included in other assets in the Unaudited Condensed Consolidated Balance Sheets. The JV was dissolved effective February 14, 2020, and the dissolution terms include an estimated final cash distribution from the JV to the Company of approximately $92 thousand, to be paid as soon as practicable. The Company received the first payment of $36 thousand in April 2020, which is consistent with the dissolution terms. At September 30, 2020 the remaining cash distribution of $56 thousand is expected to be paid from the JV. There was no other activity during the nine months ended September 30, 2020 and 2019.

Note 13. Related Party Transactions

The Company closed two public offerings in January 2019, in which various executives and directors purchased shares at the public offering price. On January 14, 2019, John Pappajohn, who was then a Director, John Roberts, the Company's President and Chief Executive Officer, and Geoffrey Harris, a Director, purchased 33 thousand shares, 3 thousand shares and 3 thousand shares, respectively, at the public offering price of $6.75 per share. On January 31, 2019, John Pappajohn, John Roberts, Edmund Cannon, a Director, and M. Glenn Miles, the Company's Chief Financial Officer, purchased 33 thousand shares, 6 thousand shares, 1 thousand shares and 5 thousand shares, respectively, at the public offering price of $6.90 per share.

Note 14. Contingencies

On April 5, 2018 and April 12, 2018, purported stockholders of the Company filed nearly identical putative class action lawsuits in the U.S. District Court for the District of New Jersey, against the Company, Panna L. Sharma, John A. Roberts, and Igor Gitelman, captioned Ben Phetteplace v. Cancer Genetics, Inc. et al., No. 2:18-cv-05612 and Ruo Fen Zhang v. Cancer Genetics, Inc. et al., No. 2:18-06353, respectively. The complaints alleged violations of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and SEC Rule 10b-5 based on allegedly false and misleading statements and omissions regarding the Company's business, operational, and financial results. The lawsuits sought, among other things, unspecified compensatory damages in connection with purchases of the Company's stock between March 23, 2017 and April 2, 2018, as well as interest, attorneys' fees, and costs. On August 28, 2018, the Court consolidated the two actions in one action captioned In re Cancer Genetics, Inc. Securities Litigation (the "Securities Litigation") and appointed shareholder Randy Clark as the lead plaintiff. On October 30, 2018, the lead plaintiff filed an amended complaint, adding Edward Sitar as a defendant and seeking, among other things, compensatory damages in connection with purchases of CGI stock between March 10, 2016 and April 2, 2018. On December 31, 2018, Defendants filed a motion to dismiss the amended complaint for failure to state a claim. The Court granted the defendants' motion to dismiss during the oral argument and on February 25, 2020, the Court issued a written order dismissing the case with prejudice. The Lead Plaintiff has not appealed the dismissal.

In addition, on June 1, 2018, September 20, 2018, and September 25, 2018, purported stockholders of the Company filed nearly identical derivative lawsuits on behalf of the Company in the U.S. District Court for the District of New Jersey against the Company (as a nominal defendant) and current and former members of the Company's Board of Directors and current and former officers of the Company. The three cases are captioned: Bell v. Sharma et al., No. 2:18-cv-10009-CCC-MF, McNeece v. Pappajohn et al., No. 2:18-cv-14093, and Workman v. Pappajohn, et al., No. 2:18-cv-14259 (the "Derivative Litigation"). The complaints allege claims for breach of fiduciary duty, violations of Section 14(a) of the Securities Exchange Act of 1934 (premised upon alleged omissions in the Company's 2017 proxy statement), and unjust enrichment, and allege that the individual defendants failed to implement and maintain adequate controls, which resulted in ineffective disclosure controls and procedures, and conspired to conceal this alleged failure. The lawsuits seek, among other things, damages and/or restitution to the Company, appropriate equitable relief to remedy the alleged breaches of fiduciary duty, and attorneys' fees and costs. On November 9, 2018, the Court in the Bell v. Sharma action entered a stipulation filed by the parties staying the Bell action until the Securities Litigation is dismissed, with prejudice, and all appeals have been exhausted; or the defendants' motion to dismiss

in the Securities Litigation is denied in whole or in part; or either of the parties in the Bell action gives 30 days' notice that they no longer consent to the stay. On December 10, 2018, the parties in the McNeece action filed a stipulation that is substantially identical to the Bell stipulation. On February 1, 2019, the Court in the Workman action granted a stipulation that is substantially identical to the Bell stipulation. On May 15, 2020, the plaintiffs in the Workman action filed a notice of voluntary dismissal to the original action and have formally withdrawn. On May 18, 2020, the plaintiffs in the McNeece action filed a notice of voluntary dismissal to the original action and have formally withdrawn. On June 22, 2020, the plaintiffs in the Bell action voluntarily dismissed their action. Based upon the above dismissals of the securities class action litigation, the Company believes this matter is closed. The Company was expensing legal costs associated with the loss contingency as incurred.

On November 10, 2020, a purported stockholder of the Company filed a complaint against the Company, CGI Acquisition, Inc., the directors of the Company and StemoniX, Inc. in the District Court of Delaware, entitled, Jason Kauffman v. Cancer Genetics, Inc. et al.. The complaint alleges that the Company's Registration Statement on Form S-4, as filed with the SEC on October 16, 2020 (the "Registration Statement"), omitted to disclose certain material information allegedly necessary to make statements made in the Registration Statement not misleading and/or false, in violation of Section 14(a) and Section 20(a) of the Securities Exchange Act of 1934, as amended (the "Exchange Act") and Rule 14a-9 promulgated thereunder. The complaint seeks injunctive relief enjoining the Merger and costs, among other remedies.

The Company believes that the claim asserted in this lawsuit is without merit and intends to vigorously defend the Company, CGI Acquisition, Inc. and the director defendants against this claim, however, there can be no assurance that the defendants will prevail in such lawsuit. The Company is not able to estimate any possible loss from this litigation at this time. It is possible that additional lawsuits may be filed in connection with the proposed Merger with StemoniX, Inc.

Note 15. Sale of Net Operating Losses

On April 4, 2019, the Company sold $11,638,516 of gross State of New Jersey NOL's relating to the 2017 tax year as well as $71,968 of state research and development tax credits. The sale resulted in the net receipt by the Company of approximately $512,000, which is included in the income tax benefit line on the Condensed Consolidated Statements of Operations and Other Loss for the nine months ended September 30, 2019.

Note 16. Subsequent Events

On October 28, 2020 the Company entered into an underwriting agreement with H.C. Wainwright & Co., LLC ("H.C. Wainwright"), relating to an underwritten public offering of approximately 1.6 million shares of common stock, including approximately 0.2 million shares subject to an option to purchase additional shares, which option was exercised in full on October 30, 2020, at a price to the public of $2.20 per share. The Company received gross proceeds from the offering of approximately $3.5 million, less underwriting discounts and commissions and estimated offering expenses payable by the Company of approximately $534 thousand. In addition, H.C. Wainwright received warrants to purchase approximately 94 thousand shares of common stock at $2.42 per share.

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

As used herein, the "Company" and "CGI" refer to Cancer Genetics, Inc. and its wholly owned subsidiaries at September 30, 2020: Cancer Genetics Italia, S.r.l., Gentris, LLC, and *vivo*Pharm Pty, Ltd, 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 the Company's financial condition and its 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 the Company's annual report on Form 10-K filed with the SEC on May 29, 2020. This MD&A may contain forward-looking statements that involve risks and uncertainties. See "Cautionary Note Regarding Forward-Looking Statements" below. The share numbers in the following discussion reflect a 1-for-30 reverse stock split that the Company effected October 24, 2019.

Overview

Cancer Genetics, Inc. supports the efforts of the biotechnology and pharmaceutical industries to develop innovative new drug therapies. Following the Business Disposals, the Company currently has an extensive set of anti-tumor referenced data based on predictive xenograft and syngeneic tumor models from the acquisition of vivoPharm, Pty Ltd. ("vivoPharm") in 2017, to provide Discovery Services such as contract research services, focused primarily on unique specialized studies to guide drug discovery and development programs in the oncology and immuno-oncology fields. vivoPharm is a contract research organization ("CRO") that specializes in planning and conducting unique, specialized studies to guide drug discovery and

development programs with a concentration in oncology and immuno-oncology. These studies range from early compound selection to developing comprehensive sets of in vitro and in vivo data, as needed for U.S. Food and Drug Administration ("FDA") Investigational New Drug ("IND") applications.

The Company offers preclinical services such as predictive tumor models, human orthotopic xenografts and syngeneic immuno-oncology relevant tumor models in its Hershey, PA facility, and is a leader in the field of immuno-oncology preclinical services in the United States. This service is supplemented with GLP toxicology and extended bioanalytical services in the Company's Australian-based facilities in Clayton, Victoria, and Gilles Plains, South Australia (effective in February 2020).

The Company does not project that cash at September 30, 2020, will be sufficient to fund normal operations for the twelve months from the issuance of these financial statements in the Quarterly Report on Form 10-Q. Absent the Merger, the Company's ability to continue as a going concern is dependent on reduced losses and improved future cash flows. Alternatively, the Company may be required to raise additional equity or debt capital, or consummate other strategic transactions. The Company can provide no assurance that these actions will be successful or that additional sources of financing will be available on favorable terms, if at all. These factors raise substantial doubt about the Company's ability to continue as a going concern for the next twelve months from the issuance of this Quarterly Report on Form 10-Q.

Merger Agreement

On August 24, 2020, Cancer Genetics, Inc. (the "Company") announced the entry into an Agreement and Plan of Merger and Reorganization, dated August 21, 2020 ("Merger Agreement") between the Company, StemoniX, Inc., a Minnesota corporation ("StemoniX"), and CGI Acquisition, Inc., a Minnesota corporation and wholly-owned subsidiary of the Company ("Merger Sub"), pursuant to which Merger Sub will merge with and into StemoniX, with StemoniX surviving the merger and becoming a direct, wholly-owned subsidiary of CGIX (the "Merger"). The transaction is structured as a reverse merger with StemoniX as the acquirer for accounting purposes.

Pursuant to, and subject to the conditions of, the Merger Agreement, each share of common stock of StemoniX (other than Dissenting Shares (as defined in the Merger Agreement)), issued and outstanding immediately prior to the effective time of the Merger (the "Effective Time") shall be automatically converted into the right to receive an amount of shares of common stock, par value $0.0001 per share, of the Company ("CGI Common Stock") equal to the Exchange Ratio (as defined in the Merger Agreement). All options to purchase shares of StemoniX Common Stock ("StemoniX Options") outstanding immediately prior to the Effective Time, whether vested or unvested, will be converted into a stock option to purchase shares of CGI Common Stock, proportionately adjusted based on the Exchange Ratio. All warrants to purchase shares of StemoniX Common Stock ("StemoniX Warrants") outstanding immediately prior to the Effective Time will be cancelled and converted into the right to receive the same consideration such warrantholder would have received had they exercised the StemoniX Warrants immediately prior to the merger, based on the Exchange Ratio, net of the exercise price. As a result, immediately following the Effective Time, but prior to the proportionate dilution to come from the contemplated private placement that is a condition of the merger (the "Private Placement"), the former StemoniX shareholders will hold approximately 78% of the outstanding shares of CGI Common Stock (which outstanding shares, the "Deemed Outstanding Shares", in this context, includes the CGI Common Stock issuable on a net exercise basis with respect to any in-the-money CGI options, in-the-money CGI warrants, in-the-money StemoniX Options and in-the-money StemoniX Warrants but does not include any shares issued in the Private Placement) and the stockholders of CGI, will retain ownership of approximately 22% of the Deemed Outstanding Shares, with such percentages subject to certain closing adjustments based on the Net Cash (as defined in the Merger Agreement) held by each company (such adjustment, the "Net Cash Adjustment") and, proportionately for all equity holders of the post-merger company, dilution from the Private Placement. The exact number of shares of CGI Common Stock that will be issued to StemoniX shareholders will be fixed immediately prior to the Effective Time to reflect the capitalization of CGI as of immediately prior to such time as well as the Net Cash Adjustment.

Business Disposals - Discontinuing Operations

Interpace Diagnostics Group, Inc.

On July 15, 2019, the Company entered into a secured creditor asset purchase agreement (the "BioPharma Agreement") by and among the Company, Gentris, LLC, a wholly-owned subsidiary of the Company, Partners for Growth IV, L.P. ("PFG"), Interpace Biosciences, Inc. (formerly known as Interpace Diagnostics Group, Inc.) ("IDXG") and a newly-formed subsidiary of IDXG, Interpace BioPharma, Inc. ("Buyer"). The BioPharma Agreement provided for a consensual private foreclosure sale by PFG of all assets relating to the Company's BioPharma Business (as defined in the BioPharma Agreement) to Buyer (the "BioPharma Disposal"). The BioPharma Disposal was consummated on July 15, 2019.

Pursuant to the BioPharma Agreement, Buyer purchased from PFG certain assets and assumed certain liabilities of the Company relating to the BioPharma Business, providing as gross consideration $23.5 million, less certain closing adjustments totaling $2.0 million, of which $7.7 million was paid in the form of a promissory note issued by Buyer to the Company (the "Excess Consideration Note") and the remainder was paid to PFG in cash. PFG utilized the cash proceeds to satisfy the outstanding balances of the Silicon Valley Bank ("SVB") asset-based revolving line of credit ("ABL") and the $6.0 million term note to PFG ("PFG Term Note"), and to satisfy certain transaction expenses. The balance of approximately $2.3 million was delivered to the Company along with the Excess Consideration Note. The Excess Consideration Note was settled on October 24, 2019 for $6.0 million. The Buyer withheld from the settlement of the Excess Consideration Note approximately $775 thousand for a net worth adjustment (assets less liabilities) of the BioPharma business ("Net Worth"), $153 thousand to secure collection of certain older accounts receivable of the Company purchased by Buyer ("AR Holdback") and an additional $735 thousand as security for indemnification obligations of the Company ("Indemnification Holdback"). The Company received the full amounts of the AR Holdback and the Indemnification Holdback in April and May 2020, respectively.

The Company and Buyer also entered into a transition services agreement (the "TSA") pursuant to which the Company and Buyer are providing certain services to each other to accommodate the transition of the BioPharma Business to Buyer. In particular, the Company agreed to provide to Buyer, among other things, certain personnel services, payroll processing, administration services and benefit administration services, for a period not to exceed six months from July 15, 2019, subject to the terms and conditions of the TSA, in exchange for payment or reimbursement, as applicable, by Buyer for the costs related thereto, including salaries and benefits for certain of the Company's BioPharma employees during the transition period. The Buyer paid for certain costs of the Company under the TSA with respect to a limited number of employees and professionals. Such shared services amounted to $10 thousand and $208 thousand for the quarter and the nine months ended September 30, 2020, respectively. In addition, the Buyer was reimbursing the Company, in part, for the salaries and benefits of John A. Roberts, the Company's Chief Executive Officer, and Glenn Miles, the Company's Chief Financial Officer through July 2020. The reimbursed portion of such salaries and benefits amounted to $5 thousand and $155 thousand for the quarter and nine months ended September 30, 2020, respectively. Including the amounts due under the TSA described above, the net amount due to the Buyer is approximately $421 thousand at September 30, 2020. The TSA will continue until a mutually-agreed upon end date.

siParadigm, Inc.

On July 5, 2019, the Company entered into an asset purchase agreement (the "Clinical Agreement") by and among the Company and siParadigm, LLC ("siParadigm"), pursuant to which the Company sold to siParadigm, certain assets associated with the Company's clinical laboratory business (the "Clinical Business," and such assets, the "Designated Assets"), and agreed to cease operating its Clinical Business. The Designated Assets include intellectual property, equipment and customer lists associated with the Clinical Business, and for a period the Company was providing certain transitional services to siParadigm pursuant to the Clinical Agreement. The cash consideration paid by siParadigm at closing was approximately $747 thousand, which included approximately $45 thousand for certain equipment plus a $1.0 million advance payment of the Earn-Out (as defined below), less adjustments and costs of approximately $298 thousand. The Clinical Business sale (together with the BioPharma Disposal, the "Business Disposals") was completed on July 8, 2019.

The Earn-Out, to be paid over the 24 months post-closing, is based on fees for all tests performed by siParadigm for the Company's clinical customers during the 12-month period following the closing (the "Earn-Out"). The Company has netted the Earn-out and Advance from siParadigm as of September 30, 2020 as all months are fixed and determinable and the Company and siParadigm intend to offset. At September 30, 2020, the fair value of the Earn-Out from siParadigm was approximately $141 thousand.

The Business Disposals have been classified as discontinuing operations in conformity with GAAP. Accordingly, BioPharma and Clinical operations and balances have been reported as discontinuing operations and removed from all financial disclosures of continuing operations. Unless otherwise indicated, information in Management's Discussion and Analysis relates only to continuing operations.

2019 Offerings

In January 2019, the Company closed two public offerings and issued an aggregate of 952 thousand shares of common stock for approximately $5.4 million, net of expenses and discounts of approximately $1.1 million. The Company also issued 67 thousand warrants to its underwriters in conjunction with these offerings.

2020 Offerings

On October 28, 2020 the Company entered into an underwriting agreement with H.C. Wainwright & Co., LLC (“H.C. Wainwright”), relating to an underwritten public offering of approximately 1.6 million shares of common stock, including approximately 0.2 million shares subject to an option to purchase additional shares, which option was exercised in full on October 30, 2020, at a price to the public of $2.20 per share. The Company received gross proceeds from the offering of approximately $3.5 million, less underwriting discounts and commissions and estimated offering expenses payable by the Company of approximately $534 thousand. In addition, H.C. Wainwright received warrants to purchase approximately 94 thousand shares of common stock at $2.42 per share.

Note Payable to Atlas Sciences, LLC

On October 21, 2019, the Company issued an unsecured promissory note to Atlas Sciences, LLC (“Atlas Sciences”), an affiliate of Iliad Research and Trading, L.P. (“Iliad”), for $1.3 million (the “Atlas Sciences Note”). The Company received consideration of $1.3 million, reflecting an original issue discount of $88 thousand and expenses payable by the Company of $10 thousand. The Atlas Sciences Note had a 12-month term and accrued interest at 10% per annum. The proceeds from the Atlas Sciences Note were utilized to partially repay the convertible promissory note issued to Iliad on July 17, 2018 (the "Convertible Note"), which was settled in cash for $2.7 million in October 2019.

Between June 3, 2020 and June 9, 2020, the Company issued an aggregate of approximately 153 thousand shares of the Company's common stock, with a fair value of $531 thousand, to Atlas Sciences in exchange for the return to the Company of $500 thousand of principal amount from its unsecured promissory note. Between July 23, 2020 and September 23, 2020, the Company issued an aggregate of approximately 246 thousand shares of the Company's common stock, with a fair value of $1.05 million, to Atlas Sciences in exchange for the return to the Company of the remaining principal and interest from its unsecured promissory note.

Key Factors Affecting the Company's Results of Operations and Financial Condition

The Company's wholly-owned subsidiary, *vivo*Pharm, provides proprietary preclinical oncology and immuno-oncology services, offering integrated services in different disease areas to the biotechnology and pharmaceutical industries. *vivo*Pharm is a leader in orthotopic and metastases tumor models. The Company provides all services including toxicology testing and bioanalytical analysis to GLP. *vivo*Pharm specializes in conducting studies tailored to guide drug development, starting from compound libraries and ending with a comprehensive set of *in vitro* and *in vivo* data and reports, as needed for Investigational New Drug (IND) filing.

The Company's ability to complete such studies is dependent upon its ability to leverage its collaborative relationships with pharmaceutical and biotechnology companies and leading institutions to facilitate its research and obtain data for its quality assurance and test validation efforts.

The Company believes that the factors discussed in the following paragraphs have had and are expected to continue to have a material impact on its results of operations and financial condition.

Revenues from Continuing Operations

Revenue from the Company's Discovery Services comes from preclinical oncology and immuno-oncology services offered to its biotechnology and pharmaceutical customers. The Company is a leader in orthotopic and metastases tumor models and offer whole body imaging, in addition to toxicology testing and bioanalytical analysis. Discovery Services are designed to specialize in conducting studies tailored to guide drug development, starting from compound libraries and ending with a comprehensive set of *in vitro* and *in vivo* data and reports, as needed for Investigational New Drug (IND) filing.

Due to the Business Disposals that occurred in July 2019, revenues from the Company's Biopharma Services and Clinical Services are presented net of expenses in discontinuing operations.

Cost of Revenues from Continuing Operations

The Company's cost of revenues consists principally of internal personnel costs, including non-cash stock-based compensation, laboratory consumables, shipping costs, overhead and other direct expenses, such as specimen procurement and third-party validation studies. The Company continues to pursue various strategies to control its cost of revenues, including automating the Company's processes through more efficient technology and attempting to negotiate improved terms with its suppliers.

Operating Expenses from Continuing Operations

The Company classifies its operating expenses into two categories: general and administrative, and sales and marketing. The Company's operating expenses principally consist of personnel costs, including non-cash stock-based compensation, outside services, laboratory consumables and overhead, development costs, marketing program costs and legal and accounting fees.

General and Administrative Expenses. General and administrative expenses consist principally of personnel-related expenses, professional fees, such as legal, accounting and business consultants, occupancy costs, bad debt and other general expenses. Certain general and administrated expenses were offset by reimbursements due under the TSA through July 2020.

Sales and Marketing Expenses. The Company's sales and marketing expenses consist principally of personnel and related overhead costs for its business development team and their support personnel, travel and entertainment expenses, and other selling costs including sales collaterals and trade shows. The Company expects its sales and marketing expenses to increase due to additional salaries as it continues to operate and grow its Discovery Services business.

Coronavirus (COVID-19) Pandemic. On March 11, 2020 the World Health Organization declared the novel strain of coronavirus ("COVID-19") a global pandemic and recommended containment and mitigation measures worldwide. In addition, the Company is located in New Jersey and was under a shelter-in-place mandate. Many of the Company's customers worldwide were similarly impacted. The global outbreak of COVID-19 continues to rapidly evolve, and the extent to which COVID-19 may impact the Company's business will depend on future developments, which are highly uncertain and cannot be predicted with confidence, such as the ultimate geographic spread of the disease, the duration of the outbreak, travel restrictions and social distancing in the United States and other countries, business closures or business disruptions, and the effectiveness of actions taken in the United States and other countries to contain and treat the disease. As a healthcare provider, the Company is still providing Discovery Services and began to experience a slowdown in project work as a result of the COVID-19 pandemic during the third quarter of 2020 and expects the progress of many projects may be delayed. The Company continues to vigilantly monitor the situation with its primary focus on the health and safety of its employees and clients.

Results of Operations

Three Months Ended September 30, 2020 and 2019

The following table sets forth certain information concerning the Company's results of continuing operations for the periods shown:

	Three Months Ended September 30,		Change	
(dollars in thousands)	**2020**	2019	**$**	**%**
Revenue	**$ 1,568**	$ 2,069	$ (501)	(24)%
Cost of revenues	**912**	993	(81)	(8)%
General and administrative	**1,217**	1,239	(22)	(2)%
Sales and marketing	**354**	322	32	10 %
Impairment of goodwill	**—**	2,873	(2,873)	n/a
Merger costs	**454**	284	170	60 %
Loss from continuing operations	**(1,369)**	(3,642)	2,273	(62)%
Interest expense, net	**(108)**	(200)	92	(46)%
Change in fair value of acquisition note payable	**—**	5	(5)	n/a
Change in fair value of warrant liability	**(19)**	34	(53)	(156)%
Change in fair value of siParadigm Earn-Out	**(1)**	(982)	981	(100)%
Other income	**146**	—	146	n/a
Loss before income taxes	**(1,351)**	(4,785)	3,434	(72)%
Income tax expense	**2**	—	2	n/a
Loss from continuing operations	**$ (1,353)**	$ (4,785)	$ 3,432	(72)%

Non-GAAP Financial Information

In addition to disclosing financial results in accordance with United States generally accepted accounting principles ("GAAP"), the table below contains non-GAAP financial measures that the Company believe are helpful in understanding and comparing its past financial performance and its future results. The non-GAAP financial measures disclosed by the Company exclude the non- operating changes in the fair value of derivative instruments. These non-GAAP financial measures should not be considered a substitute for, or superior to, financial measures calculated in accordance with GAAP, and the financial results calculated in accordance with GAAP and reconciliations from these results should be carefully evaluated. Management believes that these non-GAAP measures provide useful information about the Company's core operating results and thus are appropriate to enhance the overall understanding of the Company's past financial performance and its prospects for the future. The non-GAAP financial measures in the table below include adjusted EBITDA loss from continuing operations.

Reconciliation from GAAP to Non-GAAP Results (in thousands, except per share amounts):

	Three Months Ended September 30,	
	2020	2019
Reconciliation of net loss from continuing operations:		
Net loss from continuing operations	**(1,353)**	(4,785)
Adjustments:		
Interest expense, net	**108**	200
Depreciation	**40**	17
Amortization	**118**	105
Impairment of goodwill	**—**	2,873
Stock-based compensation	**39**	40
Change in fair value of acquisition note payable	**—**	(5)
Change in fair value of warrant liability	**19**	(34)
Change in fair value of siParadigm Earn-Out	**1**	982
Income tax expense (benefit)	**2**	—
Adjusted EBITDA loss from continuing operations	**$ (1,026)**	**$ (607)**

Adjusted EBITDA loss from continuing operations increased 69% to $1.0 million during the three months ended September 30, 2020, from an adjusted EBITDA loss from continuing operations of $0.6 million during the three months ended September 30, 2019.

Revenue from Continuing Operations

Revenue from continuing operations decreased 24%, or $501 thousand, during the three months ended September 30, 2020 compared to the same period in 2019 principally due to the timing of Discovery Service studies and the impact of COVID-19.

Cost of Revenues from Continuing Operations

Cost of revenues from continuing operations decreased 8%, or $81 thousand, for the three months ended September 30, 2020, principally due to a $170 thousand decrease in lab supplies, offset in part by $100 thousand increase in outsourcing costs. As a result of the changes in revenues and cost of revenues, gross margin from continuing operations decreased to 42% during the three months ended September 30, 2020, down from 52% for the three months ended September 30, 2019. The gross margin declined due to the changes in revenue and cost of revenues discussed above.

Operating Expenses from Continuing Operations

General and administrative expenses from continuing operations decreased 2%, or $22 thousand, to $1.2 million for the three months ended September 30, 2020, from $1.2 million for the three months ended September 30, 2019, principally due to $169 thousand decrease in salaries and a $125 thousand decrease in audit and professional fees, offset in part by $169 thousand increase in taxes and insurance and a $109 thousand increase in depreciation and amortization.

Sales and marketing expenses from continuing operations increased 10%, or $32 thousand, to $354 thousand for the three months ended September 30, 2020 from $322 thousand for the three months ended September 30, 2019. The increase was primarily related to a shift of time spent by key personnel on sales and marketing activities.

Merger costs increased 60% or $170 thousand, to $454 thousand for the three months ended September 30, 2020 from $284 thousand for the three months ended September 30, 2019. Merger costs for the three months ended September 30, 2020 relate to the potential merger with StemoniX. Merger costs for the three months ended September 30, 2019 related to the Business Disposals.

Interest Expense, Net

Net interest expense from continuing operations decreased by $92 thousand during the three months ended September 30, 2020 due to the payoff of various debt agreements that were previously in place during the three months ended September 30, 2019.

Change in Fair Value of Acquisition Note Payable

There was no change in fair value of acquisition note payable during the three months ended September 30, 2020. During the three months ended September 30, 2019, the Company recognized a gain of $5 thousand from the change in fair value of acquisition note payable.

Change in Fair Value of Warrant Liability

Changes in fair value of some of the Company's common stock warrants may impact its quarterly results. Accounting rules require the Company to record certain of its warrants as a liability, measure the fair value of these warrants each quarter and record changes in that value in earnings. As a result of changes in the Company's stock price, it recognized non-cash loss of $19 thousand and non-cash gain $34 thousand during the three months ended September 30, 2020 and 2019, respectively. The Company may be exposed to non-cash charges, or the Company may record non-cash income, as a result of this warrant exposure in future periods.

Change in Fair Value of siParadigm Earn-Out

During the three months ended September 30, 2020, the Company recognized a $1 thousand reduction in the fair value of the siParadigm Earn-Out due to a decrease in expected future payments. During the three months ended September 30, 2019, the Company recognized a $982 thousand reduction in the fair value of the siParadigm Earn-Out due to a decrease in expected future payments.

Nine Months Ended September 30, 2020 and 2019

The following table sets forth certain information concerning the Company's results of continuing operations for the periods shown:

(dollars in thousands)	Nine Months Ended September 30, 2020	2019	Change $	Change %
Revenue	**$ 4,440**	$ 5,416	$ (976)	(18)%
Cost of revenues	**2,366**	2,729	(363)	(13)%
General and administrative	**4,982**	4,205	777	18 %
Sales and marketing	**979**	824	155	19 %
Impairment of goodwill	**—**	2,873	(2,873)	n/a
Merger costs	**454**	284	170	60 %
Loss from operations	**(4,341)**	(5,499)	1,158	(21)%
Interest expense, net	**(279)**	(1,327)	1,048	(79)%
Change in fair value of acquisition note payable	**4**	12	(8)	n/a
Change in fair value of other derivatives	**—**	86	(86)	(100)%
Change in fair value of warrant liability	**133**	233	(100)	(43)%
Change in fair value of siParadigm Earn-Out	**(66)**	(982)	916	n/a
Other income (expense)	**251**	(11)	262	n/a
Loss before income taxes	**(4,298)**	(7,488)	3,190	(43)%
Income tax expense (benefit)	**8**	(512)	520	n/a
Loss from continuing operations	**$ (4,306)**	$ (6,976)	$ 2,670	(38)%

Non-GAAP Financial Information

In addition to disclosing financial results in accordance with United States generally accepted accounting principles ("GAAP"), the table below contains non-GAAP financial measures that the Company believe are helpful in understanding and comparing its past financial performance and its future results. The non-GAAP financial measures disclosed by the Company exclude the non- operating changes in the fair value of derivative instruments. These non-GAAP financial measures should not be considered a substitute for, or superior to, financial measures calculated in accordance with GAAP, and the financial results calculated in accordance with GAAP and reconciliations from these results should be carefully evaluated. Management believes that these non-GAAP measures provide useful information about the Company's core operating results and thus are appropriate to enhance the overall understanding of the Company's past financial performance and its prospects for the future. The non-GAAP financial measures are included in the table below.

Reconciliation from GAAP to Non-GAAP Results (in thousands):

	Nine Months Ended September 30, 2020	2019
Reconciliation of net loss from continuing operations:		
Net loss from continuing operations	**$ (4,306)**	(6,976)
Adjustments:		
Interest expense, net	**279**	1,327
Depreciation	**130**	53
Amortization	**332**	328
Stock-based compensation	**152**	226
Impairment of goodwill	**—**	2,873
Change in fair value of acquisition note payable	**(4)**	(12)
Change in fair value of other derivatives	**—**	(86)
Change in fair value of warrant liability	**(133)**	(233)
Change in fair value of siParadigm Earn-Out	**66**	982
Income tax expense (benefit)	**8**	(512)
Adjusted EBITDA loss from continuing operations	**$ (3,476)**	$ (2,030)

Adjusted EBITDA loss from continuing operations increased 71% to $3.5 million during the nine months ended September 30, 2020, from an adjusted EBITDA loss from continuing operations of $2.0 million during the nine months ended September 30, 2019.

Revenue from Continuing Operations

Revenue from continuing operations decreased 18%, or $976 thousand, to $4.4 million for the nine months ended September 30, 2020, from $5.4 million for the nine months ended September 30, 2019, principally due to Tissue of Origin® tests of approximately $300 thousand in 2019, and the timing of Discovery Service studies and the impact of COVID-19.

Cost of Revenues from Continuing Operations

Cost of revenues from continuing operations decreased 13%, or $363 thousand, to $2.4 million for the nine months ended September 30, 2020 from $2.7 million for the nine months ended September 30, 2019, principally due to a reduction in lab supplies of $296 thousand, reduction in salaries of $37 thousand, and reduction in outsourcing costs of $32 thousand. As a result of the changes in revenues and cost of revenues, gross margin decreased to 47% during the nine months ended September 30, 2020 from 50% during the nine months ended September 30, 2019. The gross margin declined due to the changes in revenue and cost of revenues discussed above.

Operating Expenses from Continuing Operations

General and administrative expenses from continuing operations increased 18%, or $777 thousand, to $5.0 million for the nine months ended September 30, 2020, from $4.2 million for the nine months ended September 30, 2019, principally due to $980 thousand increase in audit and professional services (of which $619 thousand represent one-time costs), $305 thousand increase in taxes and insurance a $103 thousand increase in board of director fees, and a $93 thousand increase in depreciation and amortization, offset in part by a $394 thousand decrease in salaries, a $210 thousand decrease in SEC reporting costs, and a $129 thousand decrease in investor relations costs.

Sales and marketing expenses from continuing operations increased 19%, or $155 thousand, to $979 thousand for the nine months ended September 30, 2020, from $824 thousand for the nine months ended September 30, 2019, principally due to a shift of time spent by key personnel on sales and marketing activities.

Merger costs increased 60% or $170 thousand to $454 thousand for the nine months ended September 30, 2020, from $284 thousand for the nine months ended September 30, 2019. Merger costs for the nine months ended September 30, 2020 relate to the potential merger with StemoniX. Merger costs for the nine months ended September 30, 2019 related to the Business Disposals.

Interest Expense, Net

Net interest expense from continuing operations decreased by $1.0 million during the nine months ended September 30, 2020 due to the payoff of various debt agreements that were previously in place during the nine months ended September 30, 2019. At the end of the same quarter in 2019, the Advance from NDX was $1.5 million. In July 2020, the Company paid the remaining balance of $50 thousand. The decrease in balance resulted in a reduction of $1.1 million of interest expense. The Convertible Note with Iliad of approximately $2.3 million at September 30, 2019 had been replaced by a note payable to Atlas Sciences in October 2019. The note payable to Atlas Sciences was settled though the exchange of common stock in the quarter ending September 30, 2020 and was fully paid off as of September 30, 2020. The decrease in the balance of the note payable, offset by losses on extinguishment of the note payable resulted in a reduction of $1.2 million of interest expense. The Company allocated $1.5 million of these interest expenses to discontinuing operations during the nine months ended September 30, 2019.

Change in Fair Value of Acquisition Note Payable

During the nine months ended September 30, 2020, the Company recognized a gain of $4 thousand from the change in fair value of acquisition note payable. During the nine months ended September 30, 2019, the Company recognized a gain of $12 thousand from the change in fair value of acquisition note payable.

Change in Fair Value of Other Derivatives

There were no other derivatives in 2020. During nine months ended September 30, 2019, the Company recognized a gain of $86 thousand from the change in fair value of other derivatives.

Change in Fair Value of Warrant Liability

Changes in fair value of some of the Company's common stock warrants may impact its quarterly results. Accounting rules require the Company to record certain of its warrants as a liability, measure the fair value of these warrants each quarter and record changes in that value in earnings. As a result of changes in the Company's stock price, it recognized non-cash income of $133 thousand and $233 thousand during the nine months ended September 30, 2020 and 2019, respectively. The Company may be exposed to non-cash charges, or the Company may record non-cash income, as a result of this warrant exposure in future periods.

Change in Fair Value of siParadigm Earn-Out

During the nine months ended September 30, 2020, the Company recognized a $66 thousand reduction in the fair value of the siParadigm Earn-Out due to a decrease in expected future payments. During the nine months ended September 30, 2019, the Company recognized a $982 thousand reduction in the fair value of the siParadigm Earn-Out due to a decrease in expected future payments.

Income Tax Benefit

On April 4, 2019, the Company sold $11.6 million of gross State of New Jersey NOL's relating to the 2017 tax year as well as $72 thousand of state research and development tax credits. The sale resulted in the net receipt to the Company of $512 thousand.

Liquidity and Capital Resources

Sources of Liquidity

The Company's primary sources of liquidity have been cash collections from customers, funds generated from debt and equity financings, and cash received from the Business Disposals. The Company expects to continue generating additional cash from its customers in the future and from its Business Disposals for a limited time until the Earn-Out is paid as discussed below.

In July 2019, the Company completed two business disposals, resulting in an aggregate of $9.0 million of net cash proceeds at the time of closing; however, $1.0 million of the funds received is an advance from siParadigm that is being deducted from the Earn-Out amounts due during the period. At September 30, 2020, the estimated future Earn-Out payments from siParadigm, net of the remaining balance of the advance, were $141 thousand, which are expected to be collected in variable monthly payments through July 2021; the monthly payment amount is based on the number of tests performed by siParadigm for the Company's former Clinical Services' customers through July 2020.

On October 28, 2020 the Company entered into an underwriting agreement with H.C. Wainwright & Co., LLC (“H.C. Wainwright”), relating to an underwritten public offering of approximately 1.6 million shares of common stock, including approximately 0.2 million shares subject to an option to purchase additional shares, which option was exercised in full on October 30, 2020, at a price to the public of $2.20 per share. The Company received gross proceeds from the offering of approximately $3.5 million, less underwriting discounts and commissions and estimated offering expenses payable by the Company of approximately $534 thousand. In addition, H.C. Wainwright received warrants to purchase approximately 94 thousand shares of common stock at $2.42 per share.

The primary uses of the Company's liquidity have been cash used to fund the Company's operations, as detailed in the cash flows section below, as well as cash used to repay the Company's lenders. During 2020, the Company significantly reduced the amount of its Advance from NDX. The Company was required to remit monthly installments of $50 thousand to NDX until the Advance from NDX is repaid. At December 31, 2019, the Company owed $350 thousand to NDX. In July 2020, the Company paid the final $50 thousand on the advance from NDX. In June 2020, the Company reduced the note payable to Atlas Sciences by $500 thousand through the exchange of shares of common stock. Throughout July and September, the Company settled the remaining principal and interest on the note payable to Atlas Sciences through the exchange of shares of common stock.
The Company does not project that cash at September 30, 2020 along with the proceeds from the October 2020 offering will be sufficient to fund normal operations for the twelve months from the issuance of these financial statements in the Quarterly Report on Form 10-Q. Absent the Merger, the Company's ability to continue as a going concern is dependent on reduced losses and improved future cash flows. Alternatively, the Company may be required to raise additional equity or debt capital, or consummate other strategic transactions. These factors raise substantial doubt about the Company's ability to continue as a

going concern for the next twelve months from the issuance of these financial statements in the Quarterly Report on Form 10-Q. The Company can provide no assurance that these actions will be successful or that additional sources of financing will be available on favorable terms, if at all.

Cash Flows from Continuing Operations

The Company's net cash flow from operating, investing and financing activities from continuing operations for the periods below were as follows:

	Nine Months Ended September 30,	
(in thousands)	**2020**	2019
Cash provided by (used in) continuing operations:		
Operating activities	**$ (3,058)**	(828)
Investing activities	**885**	(21)
Financing activities	**(416)**	5,376
Effect of foreign currency exchange rates on cash and cash equivalents and restricted cash	**(72)**	(161)
Net increase (decrease) in cash and cash equivalents and restricted cash from continuing operations	**$ (2,661)**	$ 4,366

The Company had cash and cash equivalents and restricted cash of $1.1 million at September 30, 2020, and $4.2 million at December 31, 2019. Restricted cash of $350 thousand at December 31, 2019, was released from restriction in May 2020.

The $2.7 million decrease in cash and cash equivalents and restricted cash from continuing operations for the nine months ended September 30, 2020, principally resulted from cash flows used by operations of $3.1 million, and payments of debt and finance leases of $416 thousand, offset by receipts from investing activities of $885 thousand.

The $4.4 million increase in cash and cash equivalents and restricted cash for the nine months ended September 30, 2019, principally resulted from net proceeds from the 2019 Offerings of $5.4 million, offset by cash used in operations of $828 thousand.

At September 30, 2020, the Company had no debt, excluding lease obligations.

Cash Used in Operating Activities from Continuing Operations

Net cash used by continuing operating activities was $3.1 million for the nine months ended September 30, 2020, consisting of a net loss from continuing operations of $4.3 million, positive non-cash adjustments of $888 thousand and additional cash relating to changes in working capital items of $360 thousand. Changes in cash flows from working capital items were primarily driven by an increase in amounts due to Interpace of $421 thousand and a net increase in accounts payable, accrued expenses and deferred revenue of $400 thousand. The cash provided by these activities was partially offset by a net increase in other current assets of $203 thousand, payments on obligations under operating leases of $183 thousand, and a net increase of accounts receivable of $72 thousand. The increase in the amount due to Interpace was due to collections from Interpace's customers received under the TSA. This net amount was subsequently remitted under the TSA arrangement.

For the nine months ended September 30, 2019, the Company used $828 thousand of cash in continuing operating activities. Cash used was made up of a net loss from continuing operations of $7.0 million, positive non-cash adjustments of $5.2 million, and additional cash provided by working capital items of $900 thousand. Changes in cash flows from working capital items was primarily driven by a net increase in accounts payable, accrued expenses and deferred revenue of $1.5 million. The cash provided by these activities were partially offset by a net increase in other current assets of $422 thousand and payments on obligations under operating leases of $156 thousand.

Cash Used in Investing Activities from Continuing Operations

Net cash provided by continuing investing activities was $885 thousand for the nine months ended September 30, 2020, primarily related to the collection of the Excess Consideration Note of $888 thousand.

Net cash used in continuing investing activities was $21 thousand for the nine months ended September 30, 2019, relating to the purchase of fixed assets.

Cash Provided by Financing Activities from Continuing Operations

Net cash used in continuing financing activities was $416 thousand for the nine months ended September 30, 2020 and relates principally to payments on the Advance from NDX of $350 thousand.

Net cash provided by continuing financing activities was $5.4 million for the nine months ended September 30, 2019 and resulted principally from proceeds of the 2019 Offerings of $5.4 million.

Capital Resources and Expenditure Requirements

The Company expects to continue to incur operating losses in the future, as the costs of being public have significant effect on losses that keep the Company from being profitable. The Company expects losses to continue, only to the extent that the business does not outpace the public company-related expenses, such as legal and audit fees and director's and officer's liability insurance. These losses have had, and will continue to have, an adverse effect on the Company's working capital, total assets and stockholders' equity. Because of the numerous risks and uncertainties associated with its revenue growth and costs associated with being a public company, the Company is unable to predict when it will become profitable, and it may never become profitable. Even if the Company does achieve profitability, it may not be able to sustain or increase profitability on a quarterly or annual basis. The Company's inability to achieve and then maintain profitability would negatively affect its business, financial condition, results of operations and cash flows. As a result, it may need to raise additional capital to fund its current operations, to repay certain outstanding indebtedness and to fund its business to meet its long-term business objectives through public or private equity offerings, debt financings, borrowings or strategic partnerships coupled with an investment in the Company or a combination thereof. If the Company raises 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 its common stock. In addition, any new debt incurred by the Company could impose covenants that restrict its operations and increase its interest expense. The issuance of any new equity securities will also dilute the interest of current stockholders.

On October 28, 2020 the Company entered into an underwriting agreement with H.C. Wainwright & Co., LLC ("H.C. Wainwright"), relating to an underwritten public offering of approximately 1.6 million shares of common stock, including approximately 0.2 million shares subject to an option to purchase additional shares, which option was exercised in full on October 30, 2020, at a price to the public of $2.20 per share. The Company received gross proceeds from the offering of approximately $3.5 million, less underwriting discounts and commissions and estimated offering expenses payable by the Company of approximately $534 thousand. In addition, H.C. Wainwright received warrants to purchase approximately 94 thousand shares of common stock at $2.42 per share.

Even after the Business Disposals, the Company does not project that cash at September 30, 2020 along with the proceeds from the October 2020 offering will be sufficient to fund normal operations for the twelve months from the issuance of these financial statements in the Quarterly Report on Form 10-Q. Absent the Merger, the Company's ability to continue as a going concern is dependent on reduced losses and improved future cash flows. Alternatively, the Company may be required to raise additional equity or debt capital, or consummate other strategic transactions. These factors raise substantial doubt about the Company's ability to continue as a going concern for the next twelve months from the issuance of these financial statements in the Quarterly Report on Form 10-Q. The Company can provide no assurance that these actions will be successful or that additional sources of financing will be available on favorable terms, if at all. The Company made this assessment in light of the continued impact of COVID-19.

The Company's forecast of the period of time through which its current financial resources will be adequate to support its operations and its 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 Company's ability to adapt its business for future developments in-light of the global outbreak of the novel coronavirus, which continues to rapidly evolve;
- the expected benefits of, and potential value, including synergies, created by, the Merger for the stockholders of CGI;
- likelihood of the satisfaction of the conditions to the completion of the Merger, such as the Private Placement, and whether and when the Merger will be consummated;
- the Company's ability to achieve profitability by increasing sales of the Company's preclinical CRO services focused on oncology and immuno-oncology;
- the Company's ability to raise additional capital to repay its indebtedness and meet its liquidity needs;

- the Company's ability to execute on its marketing and sales strategy for its preclinical research services and gain acceptance of its services in the market;
- the Company's ability to keep pace with rapidly advancing market and scientific developments;
- the Company's ability to satisfy U.S. (including FDA) and international regulatory requirements with respect to its services;
- the Company's ability to maintain its present customer base and obtain new customers;
- competition from preclinical CRO services companies, many of which are much larger than the Company in terms of employee base, revenues and overall number of customers and related market share;
- the Company's ability to maintain the Company's clinical and research collaborations and enter into new collaboration agreements with highly regarded organizations in the field of oncology so that, among other things, the Company has access to thought leaders in advanced preclinical and translational science;
- potential product liability or intellectual property infringement claims;
- the Company's dependency on third-party manufacturers to supply it with instruments and specialized supplies;
- the Company's ability to attract and retain a sufficient number of scientists, clinicians, sales personnel and other key personnel with extensive experience in oncology and immuno-oncology, who are in short supply;
- the Company's ability to obtain or maintain patents or other appropriate protection for the intellectual property in its proprietary tests and services;
- the Company's ability to effectively manage its international businesses in Australia, Europe and China, including the expansion of its customer base and volume of new contracts in these markets;
- the Company's dependency on the intellectual property licensed to the Company or possessed by third parties; and
- other risks and uncertainties discussed in the Company's annual report on Form 10-K for the year ended December 31, 2019, as updated in this Form 10-Q and other reports, as applicable, the Company files with the Securities and Exchange Commission.

The unaudited condensed consolidated financial statements for the three and nine months ended September 30, 2020 were prepared on the basis of a going concern, which contemplates that the Company will be able to realize assets and discharge liabilities in the normal course of business. Accordingly, they do not give effect to adjustments that would be necessary should the Company be required to liquidate its assets. The ability of the Company to meet its obligations, and to continue as a going concern is dependent upon the availability of future funding and the continued growth in revenues. The unaudited condensed consolidated financial statements do not include any adjustments that might result from the outcome of these uncertainties.

Income Taxes

Over the past several years the Company has generated operating losses in all jurisdictions in which it may be subject to income taxes. As a result, the Company has accumulated significant net operating losses and other deferred tax assets. Because of the Company's history of losses and the uncertainty as to the realization of those deferred tax assets, a full valuation allowance has been recognized. The Company does not expect to report a benefit related to the deferred tax assets until it has a history of earnings, if ever, that would support the realization of its deferred tax assets.

Off-Balance Sheet Arrangements

Since inception, the Company has 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

The Company's management’s discussion and analysis of financial condition and results of operations is based on its unaudited condensed consolidated financial statements, which have been prepared in accordance with U.S. GAAP. The preparation of unaudited condensed consolidated financial statements requires management 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, the Company evaluate its 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.

The notes to the Company's audited consolidated financial statements in its annual report on Form 10-K for the year ended December 31, 2019 contain a summary of the Company's significant accounting policies. Management considers the following accounting policies critical to the understanding of the results of the Company's operations:

- Revenue recognition;
- Accounts receivable and bad debts;
- Warrant liabilities and other derivatives;
- Stock-based compensation;
- Income taxes; and
- Impairment of intangibles and long-lived assets.

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,” or the negative of those terms, and similar expressions and comparable terminology intended to identify forward-looking statements. These statements reflect the Company 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 the Company. These factors include, but are not limited to:

- the Company's ability to adapt its business for future developments in light of the global outbreak of the novel coronavirus, which continues to rapidly evolve;
- the expected benefits of, and potential value, including synergies, created by, the Merger for the stockholders of CGI;
- likelihood of the satisfaction of the conditions to the completion of the Merger, such as the Private Placement, and whether and when the Merger will be consummated;
- the Company's ability to achieve profitability by increasing sales of the Company's preclinical CRO services focused on oncology and immuno-oncology;
- the Company's ability to raise additional capital to repay its indebtedness and meet its liquidity needs;
- the Company's ability to execute on its marketing and sales strategy for its preclinical research services and gain acceptance of its services in the market;
- the Company's ability to keep pace with rapidly advancing market and scientific developments;
- the Company's ability to satisfy U.S. (including FDA) and international regulatory requirements with respect to its services;
- the Company's ability to maintain its present customer base and obtain new customers;
- competition from preclinical CRO services companies, many of which are much larger than the Company in terms of employee base, revenues and overall number of customers and related market share;
- the Company's ability to maintain the Company's clinical and research collaborations and enter into new collaboration agreements with highly regarded organizations in the field of oncology so that, among other things, the Company has access to thought leaders in advanced preclinical and translational science;
- potential product liability or intellectual property infringement claims;
- the Company's dependency on third-party manufacturers to supply it with instruments and specialized supplies;
- the Company's ability to attract and retain a sufficient number of scientists, clinicians, sales personnel and other key personnel with extensive experience in oncology and immuno-oncology, who are in short supply;
- the Company's ability to obtain or maintain patents or other appropriate protection for the intellectual property in its proprietary tests and services;
- the Company's ability to effectively manage its international businesses in Australia, Europe and China, including the expansion of its customer base and volume of new contracts in these markets;
- the Company's dependency on the intellectual property licensed to the Company or possessed by third parties; and
- other risks and uncertainties discussed in the Company's annual report on Form 10-K for the year ended December 31, 2019, as updated in this Form 10-Q and other reports, as applicable, the Company files 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 the Company's estimates and assumptions only as of the date of this Quarterly Report on Form 10-Q and, except as required by law, the Company 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 the Company's actual future results may be materially different from what the Company expects.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Not applicable.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

The Company evaluated, under the supervision and with the participation of the principal executive officer and principal financial officer, the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) and Rule 15d-15(e) under the Securities and Exchange Act of 1934, as amended ("Exchange Act"), as of September 30, 2020, the end of the period covered by this report on Form 10-Q. Based on this evaluation, the Company's President and Chief Executive Officer (principal executive officer) and its Chief Financial Officer (principal financial officer) have concluded that its disclosure controls and procedures were not effective at the reasonable assurance level at September 30, 2020 because of the material weakness in the Company's internal control over financial reporting that existed at December 31, 2019 that has not been remediated by the end of the period covered by this Quarterly Report on Form 10-Q.

Disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed by the Company in the reports that the Company files or submits 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 principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosures. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. Due to the inherent limitations of control systems, not all misstatements may be detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of a simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. Controls and procedures can only provide reasonable, not absolute, assurance that the above objectives have been met.

Changes in Internal Control over Financial Reporting

Other than changes related to the remediation activities discussed below, there were no changes in the Company's internal control over financial reporting during the three months ended September 30, 2020 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Material Weakness in Internal Control over Financial Reporting

Subsequent to the evaluation made in connection with filing the Company's annual report on Form 10-K for the year ended December 31, 2019, management has begun the process of remediation of the material weaknesses included in the Form 10-K, including further improvements in processes and analyses that support the recording of foreign currency exchanges and the fair value of investments. In 2020, management plans to include additional journal entry review procedures to enhance its remediation efforts. Management is committed to remediating the material weaknesses by changing its internal control over financial reporting.

The Company believes these actions will be sufficient to remediate the identified material weakness and to enhance its internal control over financial reporting. However, the new enhanced controls have not operated long enough to conclude at the time of this filing that the material weaknesses were remediated. The Company expects these deficiencies to be corrected by the end of 2020.

PART II — OTHER INFORMATION

Item 1. Legal Proceedings

On November 10, 2020, a purported stockholder of the Company filed a complaint against the Company, CGI Acquisition, Inc., the directors of the Company and StemoniX, Inc. in the District Court of Delaware, entitled, Jason Kauffman v. Cancer Genetics, Inc. et al.. The complaint alleges that the Company's Registration Statement on Form S-4, as filed with the SEC on October 16, 2020 (the "Registration Statement"), omitted to disclose certain material information allegedly necessary to make statements made in the Registration Statement not misleading and/or false, in violation of Section 14(a) and Section 20(a) of the Securities Exchange Act of 1934, as amended (the "Exchange Act") and Rule 14a-9 promulgated thereunder. The complaint seeks injunctive relief enjoining the Merger and costs, among other remedies.

The Company believes that the claim asserted in this lawsuit is without merit and intends to vigorously defend the Company, CGI Acquisition, Inc. and the director defendants against this claim, however, there can be no assurance that the defendants will prevail in such lawsuit. The Company is not able to estimate any possible loss from this litigation at this time. It is possible that additional lawsuits may be filed in connection with the proposed Merger with StemoniX, Inc.

Item 1A. Risk Factors

There have been no material changes to the risk factors disclosed in Part 1, Item 1A, of the Company's annual report on Form 10-K for the year ended December 31, 2019, except for the risks related to the pending merger with StemoniX, Inc., as noted below:

Risks Relating to the Merger and the Post-Merger Company

The consummation of the transactions contemplated by the Merger Agreement is dependent upon CGI and StemoniX obtaining all relevant and necessary consents and approvals.

A condition to consummation of the Merger is that CGI and StemoniX obtain certain consents or approvals from third parties, including consents from parties to certain commercial agreements, leases and debt agreements in connection with the Merger and approval from NASDAQ to maintain the listing of the CGI Common Stock on the Nasdaq Capital Market following the Merger and to list the shares of CGI Common Stock being issued in the Merger. In addition, the stockholders of CGI must approve the issuance of CGI Common Stock pursuant to the Merger Agreement and, if needed to maintain the listing of the CGI Common Stock on the Nasdaq Capital Market, a proposal to approve a reverse stock split of CGI Common Stock. The StemoniX shareholders must adopt the Merger Agreement and approve by written consent the merger and the transactions and related corporate changes contemplated by the Merger Agreement. There can be no assurance that CGI or StemoniX will be able to obtain all such relevant consents and approvals on a timely basis or at all. Each of CGI and StemoniX has incurred, and expects to continue to incur, significant costs and expenses in connection with the proposed Merger. Any failure to obtain, or delay in obtaining, the necessary consents or approvals would prevent CGI and StemoniX from being able to consummate, or delay the consummation of, the transactions contemplated by the Merger Agreement, which could materially adversely affect the business, financial condition and results of operations of CGI and StemoniX, and, correspondingly, the post-merger company if the merger is consummated. There is no guarantee that such approvals will be obtained or that such conditions will be satisfied.

The Private Placement may not be consummated, or may be consummated on terms that you do not believe to be favorable.

The consummation of the Merger is conditioned upon the closing, prior to or concurrently with the Merger, of a private placement of CGI securities resulting in gross proceeds in an amount to be mutually agreed upon by CGI and StemoniX, which is currently anticipated to be approximately $10 million, but which may be more or less as agreed by the parties, and depending on market demand. If such Private Placement is not consummated on acceptable terms, the parties may not be able to consummate the merger. Further, CGI has no commitment from any third parties at this time with respect to any financing, so no assurance can be given as to the terms of such financing, if available, or that the terms would be viewed as acceptable to investors.

If the conditions to the Merger are not met, the Merger may not occur.

Even if the Merger and related proposals are approved by the stockholders of CGI and StemoniX, as applicable, specified other conditions must be satisfied or waived to complete the Merger. CGI cannot assure you that all of the conditions will be satisfied or waived. If the conditions are not satisfied or waived, the Merger may not occur or will be delayed, and CGI and StemoniX each may lose some or all of the intended benefits of the Merger.

Failure to complete the Merger may result in CGI paying an expense reimbursement to StemoniX and could harm the common stock price of CGI and its future business and operations.

If the Merger is not completed, CGI is subject to the following risks:

- if the Merger Agreement is terminated under certain circumstances and certain events occur, CGI or StemoniX will be required to pay the other party an amount equal to all reasonable and documented out-of-pocket fees and expenses incurred by such other party in connection with the preparation and negotiation of the Merger Agreement, due diligence efforts by the party or otherwise in connection with the Merger; provided, however, that the amount payable may be up to and will in no event exceed $500,000;

- the price of CGI stock may decline; and

- costs related to the Merger, such as legal, accounting and investment banking fees must be paid even if the Merger is not completed.

In addition, if the Merger Agreement is terminated and the CGI board of directors determines to seek another business combination, there can be no assurance that CGI will be able to find a partner willing to provide equivalent or more attractive consideration than the consideration to be provided by StemoniX in the Merger.

CGI may be unable to identify and complete an alternative strategic transaction or continue to operate the business due to limited cash availability, and it may be required to dissolve and liquidate its assets. In such case, CGI would be required to pay all of its debts and contractual obligations, and to set aside certain reserves for potential future claims, and there can be no assurances as to the amount or timing of available cash, if any, left to distribute to stockholders after paying the debts and other obligations of CGI and setting aside funds for reserves.

If the Merger does not close, CGI does not project that its cash at September 30, 2020 will be sufficient to fund normal operations for the twelve months from the issuance of its financial statements in this Quarterly Report on Form 10-Q. Absent the Merger, CGI's ability to continue as a going concern is dependent on reduced losses and improved future cash flows. Alternatively, CGI may be required to raise additional equity or debt capital, or consummate other strategic transactions. These factors raise substantial doubt about CGI's ability to continue as a going concern. CGI can provide no assurance that these actions will be successful or that additional sources of financing will be available on favorable terms, if at all.

In the event that capital is not available CGI may then have to scale back or freeze its organic growth plans, sell assets on less than favorable terms, reduce expenses, curtail future acquisition plans to manage its liquidity and capital resources and/or pursue bankruptcy protection.

The post-merger company will need to raise additional capital by issuing securities or debt or through licensing arrangements, which may cause dilution to the post-merger company's stockholders or restrict the post-merger company's operations or proprietary rights. CGI and StemoniX have recurring losses from operations which have raised substantial doubt regarding their respective ability to continue as a going concern.

Although management of CGI and StemoniX believe that, assuming the Merger and the transactions related thereto, including the Private Placement, are consummated, the post-merger company's cash reserves (assuming $10 million in proceeds from the Private Placement) and cash flows from operations will be adequate to fund operations for the next 12 months, such estimate may prove to be wrong, and we could use our available capital resources sooner than we currently expect. Accordingly, the post-merger company may be required to raise funds sooner than currently planned.

In addition, management of CGI and StemoniX believe that conditions exist that raise substantial doubt about each company's ability to continue as a going concern due to their recurring losses from operations. Each company has incurred recurring losses since inception and anticipates operating losses to continue for the foreseeable future.

Accordingly, the post-merger company's ability to continue as a going concern will depend upon (among other things) the availability and terms of future funding. Additional financing may not be available to the post-merger company when it needs it or may not be available on favorable terms. To the extent that the post-merger company raises additional capital by issuing equity securities, such an issuance may cause significant dilution to the post-merger company's stockholders' ownership and the terms of any new equity securities may have preferences over the post-merger company's common stock. Any debt financing the post-merger company enters into may involve covenants that restrict its operations. These restrictive covenants

may include limitations on additional borrowing and specific restrictions on the use of the post-merger company's assets, as well as prohibitions on its ability to create liens, pay dividends, redeem its stock or make investments. In addition, if the post-merger company raises additional funds through licensing arrangements, it may be necessary to grant licenses on terms that are not favorable to the post-merger company.

The Merger Agreement contains a Net Cash Adjustment, which, if triggered, could cause the stockholders of CGI to own less than the 22% of the post-closing Deemed Outstanding Shares that is currently contemplated by the Merger Agreement.

Under the Merger Agreement, if CGI's Net Cash (as defined in the Merger Agreement) is less than $2,000,000 (the "CGI Net Cash Target") by more than $250,000, then the CGI Percentage (as defined in the Merger Agreement) will be adjusted downward as described below.

The CGI Percentage was initially calculated assuming pro forma values of CGI and StemoniX of approximately $17.0 million and $60.3 million, respectively, which pro forma values initially include the CGI Net Cash Target and a Net Cash target of $500,000 for StemoniX (the "StemoniX Net Cash Target"), respectively. Under the Merger Agreement, (i) if CGI's Net Cash at closing is less than the CGI Net Cash Target by more than $250,000 or (ii) if StemoniX's Net Cash at closing is less than the StemoniX Net Cash Target by more than $250,000, then the CGI Percentage (in the event of a shortfall described in foregoing clause (i)) and/or the Company Percentage (as defined in the Merger Agreement) (in the event of a shortfall described in foregoing clause (ii)) will be adjusted downward by replacing the CGI Net Cash Target and/or StemoniX Net Cash Target, as applicable, initially contained in each party's total pro forma value, with the party's newly determined pro forma Net Cash.

For example, if CGI's pro forma Net Cash is $1.0 million and StemoniX's pro forma Net Cash is determined to be between $500,000 and $250,000, then the CGI Percentage will be adjusted downward to approximately 21.0% and the Company Percentage will be adjusted upward to approximately 79.0%.

No assurance can be given that the CGI Net Cash Target will be met.

The total number of shares of CGI Common Stock that StemoniX securityholders will be entitled to receive (or will be entitled to receive upon the exercise of options to purchase CGI Common Stock issued in exchange for StemoniX Options) pursuant to the Merger Agreement is not adjustable based on the market price of CGI Common Stock (except for minor variations if any outstanding CGI Warrants or CGI Options become in-the-money as of the Effective Time), so the merger consideration at the closing may have a greater or lesser value than at the time the Merger Agreement was signed.

The Merger Agreement has set the Exchange Ratio for the StemoniX Common Stock, and the Exchange Ratio is only adjustable upward or downward based on increases or decreases in the number of shares of StemoniX's issued and outstanding capital stock and the number of shares of StemoniX capital stock issuable upon the exercise or conversion of other StemoniX securities, increases or decreases in the number of shares of CGI's issued and outstanding capital stock and the number of shares of CGI capital stock issuable on a net exercise basis under in-the-money CGI Warrants and in-the-money CGI Options and if the Net Cash of either CGI or StemoniX changes in relation to each other. Any changes in the market price of CGI Common Stock before the closing of the Merger will not affect the total number of shares of CGI Common Stock that StemoniX securityholders will be entitled to receive (or will be entitled to receive upon the exercise of options to purchase CGI Common Stock issued in exchange for StemoniX Options) pursuant to the Merger Agreement except to the extent that changes in the market price of CGI Common Stock impact the number of shares that become issuable on a net exercise basis under in-the-money CGI Warrants and CGI Options.

Therefore, if before the closing of the Merger the market price of CGI Common Stock declines from the market price on the date of the Merger Agreement, then StemoniX shareholders could receive merger consideration with substantially lower value. Similarly, if before the closing of the Merger the market price of CGI Common Stock increases from the market price on the date of the Merger Agreement, then StemoniX shareholders could receive merger consideration with substantially more value.

The market price of the post-merger company's common stock following the Merger may decline as a result of the Merger.

The market price of the post-merger company's common stock may decline as a result of the Merger for a number of reasons including if:

- investors react negatively to the prospects of the post-merger company's business and prospects from the Merger;
- the effect of the Merger on the post-merger company's business and prospects is not consistent with the expectations of financial or industry analysts; or

- the post-merger company does not achieve the perceived benefits of the Merger as rapidly or to the extent anticipated by financial or industry analysts.

CGI stockholders may not realize a benefit from the Merger commensurate with the ownership dilution they will experience in connection with the Merger.

If the post-merger company is unable to realize the full strategic and financial benefits currently anticipated from the merger, CGI securityholders will have experienced substantial dilution of their ownership interests in CGI without receiving any commensurate benefit, or only receiving part of the commensurate benefit to the extent the post-merger company is able to realize only part of the strategic and financial benefits currently anticipated from the Merger.

During the pendency of the Merger, CGI may not be able to enter into a business combination with another party at a favorable price because of restrictions in the Merger Agreement, which could adversely affect its business.

Covenants in the Merger Agreement impede the ability of CGI to make acquisitions, subject to certain exceptions relating to fiduciary duties, or complete other transactions that are not in the ordinary course of business pending the closing of the Merger. As a result, if the Merger is not completed, CGI may lose valuable business opportunities during that period. In particular, while the Merger Agreement is in effect, CGI is generally prohibited from soliciting, initiating, encouraging, negotiating or entering into certain extraordinary transactions, such as a merger, sale of assets or other business combination outside the ordinary course of business, with any third-party, subject to certain exceptions. Any such transactions could be favorable to CGI's stockholders.

Certain provisions of the Merger Agreement may discourage third parties from submitting alternative takeover proposals, including proposals that may be superior to the arrangements contemplated by the Merger Agreement.

The terms of the Merger Agreement prohibit CGI from soliciting alternative takeover proposals or cooperating with persons making unsolicited takeover proposals, except in certain circumstances where the CGI board of directors determines in good faith, after consultation with its financial advisor and outside legal counsel, that an unsolicited alternative takeover proposal constitutes or is reasonably likely to result in a superior takeover proposal. In addition, if CGI terminates the Merger Agreement under certain circumstances, including terminating because of a decision of the CGI board of directors to recommend an alternative proposal, CGI would be required to pay StemoniX an amount equal to all reasonable and documented out-of-pocket fees and expenses incurred by StemoniX in connection with the preparation and negotiation of the Merger Agreement, due diligence efforts by StemoniX or otherwise in connection with the Merger; provided, however, that the amount payable will in no event exceed $500,000. The expense reimbursement described above may discourage third parties from submitting alternative takeover proposals to CGI and its stockholders, and may cause the CGI board of directors to be less inclined to recommend an alternative proposal.

The lack of a public market for StemoniX shares makes it difficult to determine the fair market value of the StemoniX shares, and CGI may pay more than the fair market value of the StemoniX shares.

StemoniX is privately held and its capital stock is not traded in any public market. The lack of a public market makes it extremely difficult to determine StemoniX's fair market value. Because the percentage of CGI equity to be issued to StemoniX stockholders was determined based on negotiations between the parties, it is possible that the value of the CGI Common Stock to be received by StemoniX shareholders will be less than the fair market value of StemoniX, or CGI may pay more than the aggregate fair market value for StemoniX.

StemoniX's limited operating history may make it difficult for you to evaluate the success of its business to date and to assess its future prospects.

StemoniX was formed in April 2014. It remains in the development stage and is subject to all the risks inherent in a new business enterprise. StemoniX has a limited operating history for you to consider in evaluating it and its prospects. Accordingly, you should consider its prospects in light of the costs, uncertainties, delays and difficulties and risks frequently encountered by development-stage companies, especially companies operating in a rapidly evolving market. These risks include the need to:

- expand its business development and marketing activities;
- quickly integrate newly hired personnel;
- manage StemoniX's rapidly developing and changing operations; and
- expand its product offerings and to respond to changing technologies and user preferences.

Any predictions you make about StemoniX's future success or viability may not be as accurate as they would be if it had a longer operating history. StemoniX may encounter unforeseen expenses, difficulties, complications, delays and other known or unknown factors in achieving its business objectives.

The issuance of shares of CGI Common Stock to StemoniX shareholders in the Merger, and pursuant to any awards under the Cancer Genetics, Inc. 2020 Equity Incentive Plan, will dilute substantially the voting power of CGI's stockholders.

If the Merger is completed, immediately following the Effective Time, but prior to the proportionate dilution to come from the Private Placement, the former StemoniX shareholders will hold approximately 78% of the Deemed Outstanding Shares and the stockholders of CGI will retain ownership of approximately 22% of the Deemed Outstanding Shares, subject to the Net Cash Adjustment. Accordingly, the issuance of shares of CGI Common Stock to StemoniX shareholders in the Merger will reduce substantially the voting power of each share of CGI Common Stock held by CGI's security holders. Consequently, CGI security holders as a group will have substantially less influence over the management and policies of the post-merger company after the Merger, than prior thereto. In addition, the Private Placement is expected to further dilute voting power of CGI's stockholders, along with the StemoniX shareholders, on a proportionate basis. Further, the CGI board approved, and will recommend to the CGI stockholders to approve, the Cancer Genetics, Inc. 2020 Equity Incentive Plan (the "2020 Plan") and to authorize for issuance additional shares of CGI Common Stock thereunder.

The pendency of the Merger could have an adverse effect on the trading price of CGI Common Stock and CGI's business, financial condition, results of operations or business prospects.

While there have been no significant adverse effects to date, the pendency of the Merger could disrupt CGI's businesses in the following ways, including:

- the attention of CGI's management may be directed toward the closing of the Merger and related matters and may be diverted from the day-to-day business operations; and

- third parties may seek to terminate or renegotiate their relationships with CGI as a result of the Merger, whether pursuant to the terms of their existing agreements with CGI or otherwise.

Should they occur, any of these matters could adversely affect the trading price of CGI Common Stock or harm CGI's financial condition, results of operations or business prospects.

CGI's and StemoniX's businesses are subject to risks arising from epidemic diseases, such as the recent global outbreak of COVID-19.

The recent outbreak of COVID-19, which has been declared by the World Health Organization to be a pandemic, has spread across the globe and is impacting worldwide economic activity. A pandemic, including COVID-19 or other public health epidemic, poses the risk that CGI and StemoniX, or their employees, contractors, suppliers, courier delivery services and other partners, may be prevented from conducting business activities for an indefinite period of time, including due to spread of the disease within these groups or due to shutdowns that may be requested or mandated by governmental authorities. While it is not possible at this time to estimate the impact that COVID-19 could have on CGI's and StemoniX's businesses, the COVID-19 pandemic and mitigation measures have had and may continue to have an adverse impact on global economic conditions which could have an adverse effect on the post-merger company's business and financial condition, including impairing the ability to raise capital when needed.

The continued spread of COVID-19 and the measures taken by the governments of countries affected could disrupt the supply chain of material needed for CGI's Discovery Services and could delay future projects from commencing due to COVID-19 related impacts on the demand for CGI's services and therefore have a material adverse effect on business, financial condition and results of operations. In addition, CGI's corporate and accounting functions are located in New Jersey and were previously subject to a stay-at-home order, and are currently subject to social distancing orders and guidelines. CGI's preclinical laboratories located in the United States were subject to a stay-at-home order until June 2020, and are now subject to social distancing orders, and its Australia laboratories remain subject to stay-at-home orders. Many of CGI's customers worldwide are similarly impacted. As a healthcare provider, CGI has been allowed to remain open in compliance with the shelter-in-place and stay-at-home mandates and continue to provide critical services in the development of new therapies and the fight against cancer and other diseases. CGI is still providing Discovery Services, and began to experience a slowdown in project work as a result of the COVID-19 pandemic during the third quarter of 2020 and expects the future of many projects may be delayed. The global outbreak of COVID-19 continues to rapidly evolve, and the extent to which COVID-19 may impact business, results of operations and financial position will depend on future developments, which are highly uncertain and cannot be predicted with

confidence, such as the ultimate geographic spread of the disease, the duration of the outbreak, travel restrictions and social distancing in the United States and other countries, business closures or business disruptions, and the effectiveness of actions taken in the United States and other countries to contain and treat the disease.
While StemoniX has implemented risk management and contingency plans and taken preventive measures and other precautions, no predictions of specific scenarios can be made with respect to the COVID-19 pandemic and such measures may not adequately predict the impact on its business from such events. Currently, some of StemoniX's employees are working remotely in accordance with activating its business continuity plans. An extended period of remote work arrangements could increase operational risk, including but not limited to cybersecurity risks, and impair its ability to manage its business. As a healthcare provider, StemoniX has been allowed to continue to operate throughout the pandemic, however, it has also faced challenges. StemoniX also outsources certain critical business activities to third parties. As a result, StemoniX relies upon the successful implementation and execution of the business continuity planning of such entities in the current environment. While StemoniX closely monitors the business continuity activities of these third parties, successful implementation and execution of their business continuity strategies are largely outside StemoniX's control. If one or more of the third parties experience operational failures as a result of the impacts from the spread of COVID-19, or claim that they cannot perform due to a force majeure, it may have a material adverse effect on the post-merger company's business, financial condition, results of operations, liquidity and cash flows.
Any failure by us to comply with applicable regulations and related guidance could harm our reputation and operating results, and compliance with new regulations and guidance may result in additional costs.

Any failure on our part to comply with applicable regulations could result in the termination of ongoing research or the disqualification of data for submission on behalf of our clients to regulatory authorities. This could harm our reputation, our prospects for future work and our operating results. For example, the issuance of a notice of objectionable observations or a warning from the FDA based on a finding of a material violation affecting data integrity by us for Good Laboratory Practice or current Good Manufacturing Practice requirements could materially and adversely affect us. If our operations are found to violate any applicable law or other governmental regulations, we might be subject to civil and criminal penalties, damages and fines. Any action against us for violation of these laws, even if we successfully defend against it, could cause us to incur significant legal expenses, divert our management's attention from the operation of our business and damage our reputation.

Regulatory monitoring authorities have increased their emphasis on the management of computerized systems to ensure data integrity. New guidance related to the need for data integrity compliance programs have recently been released and we may require additional efforts for validation, audit trail review and archiving activities. The FDA's SEND (Standardization for Exchange of Nonclinical Data) standards apply to our clients' NDA and IND submissions after 2017 and require that electronic data be provided in specific formats that will allow for more efficient, higher quality regulatory reviews. Accordingly, our clients expect us to timely deliver their nonclinical data compliant with SEND. Notwithstanding, some of these standards require additional operating and capital expenses that will impact not only us and our industry competitors, but clients in the biomedical research community. Non-compliance with any of these expectations could lead to official action by a government authority, damage to our reputation and a potential loss of business.

In addition, the conduct of animal research at our facilities must be in compliance with the Animal Welfare Act ("AWA"), which governs the care and use of warm-blooded animals used for research in the U.S. other than laboratory rats, mice and chickens, and is enforced through periodic inspections by the USDA. The AWA establishes facility standards regarding several aspects of animal welfare, including housing, ventilation, lighting, feeding and watering, handling, veterinary care and recordkeeping. If the USDA determines that our equipment, facilities, laboratories or processes do not comply with applicable AWA standards, it may issue an inspection report documenting the deficiencies and setting deadlines for any required corrective actions. For continued noncompliance, the USDA may impose fines, suspend and/or revoke animal research licenses, or confiscate research animals.

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

Between July 23, 2020 and September 23, 2020, the Company issued an aggregate of approximately246 thousand shares of the Company's common stock, with a fair value of $1.05 million, to Atlas Sciences in exchange for the return to the Company of the remaining principal and interest from its unsecured promissory note.

The Exchange Shares are not registered under the Securities Act of 1933, as amended (the "Securities Act") or any state securities laws. The Company has relied on the exemption from the registration requirements of the Securities Act by virtue of Section 3(a)(9) under the Securities Act.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

Not applicable.

Item 6. Exhibits

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

SIGNATURE

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

Cancer Genetics, Inc.
(Registrant)

Date: November 12, 2020

/s/ John A. Roberts
John A. Roberts
President and Chief Executive Officer
(Principal Executive Officer)

Date: November 12, 2020

/s/ M. Glenn Miles
M. Glenn Miles
Chief Financial Officer
(Principal Financial and Accounting Officer)

INDEX TO EXHIBITS

Exhibit No.	Description
2.1	Agreement and Plan of Merger and Reorganization, by and among Cancer Genetics, Inc., StemoniX, Inc., and CGI Acquisition, Inc., dated August 21, 2020 (incorporated by reference to Exhibit 2.1 of the Company's Current Report on Form 8-K, filed with the Securities and Exchange Commission on August 24, 2020).
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	Certification of Principal 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	Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of The Sarbanes-Oxley Act of 2002 **
101	The following materials from the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2020, formatted in XBRL (eXtensible Business Reporting Language): (i) Condensed Consolidated Balance Sheet at September 30, 2020 (unaudited) and December 31, 2019, (ii) Condensed Consolidated Statements of Operations and Other Comprehensive Income (Loss) for the three and nine month periods ended September 30, 2020 and 2019 (unaudited), (iii) Condensed Consolidated Statements of Stockholders' Equity for the three and nine month periods ended September 30, 2020 and 2019 (unaudited), (iv) Condensed Consolidated Statements of Cash Flows for the nine month periods ended September 30, 2020 and 2019 (unaudited) and (v) Condensed Notes to Consolidated Financial Statements (unaudited)

* Filed herewith.

** Furnished herewith.

Exhibit 31.1

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, John A. Roberts, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Cancer Genetics, Inc. (the "Registrant");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;

4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:

a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c. evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d. disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and

5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent functions):

a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and

b. any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: November 12, 2020

/s/ John A. Roberts

John A. Roberts

President and Chief Executive Officer

(Principal Executive Officer)

Exhibit 31.2

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, M. Glenn Miles, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Cancer Genetics, Inc. (the "Registrant");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;

4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:

a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c. evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d. disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and

5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent functions):

a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and

b. any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: November 12, 2020

/s/ M. Glenn Miles

M. Glenn Miles
Chief Financial Officer
(Principal Financial and Accounting Officer)

Exhibit 32.1

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the quarterly report of Cancer Genetics, Inc. (the "Company") on Form 10-Q for the quarter ended September 30, 2020 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, John A. Roberts, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 12, 2020

/s/ John A. Roberts
John A. Roberts
President and Chief Executive Officer
(Principal Executive Officer)

The foregoing certification is being furnished solely pursuant to 18 U.S.C. Section 1350 and is not being filed as part of the Report or as a separate disclosure document.

Exhibit 32.2

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the quarterly report of Cancer Genetics, Inc. (the "Company") on Form 10-Q for the quarter ended September 30, 2020 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, M. Glenn Miles, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 12, 2020

/s/ M. Glenn Miles
M. Glenn Miles
Chief Financial Officer
(Principal Financial and Accounting Officer)

The foregoing certification is being furnished solely pursuant to 18 U.S.C. Section 1350 and is not being filed as part of the Report or as a separate disclosure document.