

August 5, 2013

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# Cancer Genetics Announces Second Quarter 2013 Financial Results

**Quarterly Revenue Growth Accelerates to 60% YoY  
Excluding Grant Revenue, Quarterly Revenue Grew 90% YoY  
Gross Margin Improved to 30% From 5% in the Year Ago Period  
Quarterly Clinical Test Volume Increased 97% YoY**

RUTHERFORD, N.J., Aug. 5, 2013 (GLOBE NEWSWIRE) -- Cancer Genetics, Inc. (OTCQB:CGIX) ("CGI" or the "Company"), an emerging leader in DNA-based cancer diagnostics, reported financial results for the second quarter ended June 30, 2013.

## **Second Quarter Financial Highlights:**

Revenue for the second quarter of 2013 increased 60% to \$1.8 million, compared with \$1.1 million in the second quarter of 2012.

Clinical test volume increased 97% to 3,204 tests in the second quarter, compared with 1,623 tests in the second quarter of 2012.

Gross profit increased 792% to \$553,000 in the second quarter, from \$62,000 for the same period of 2012, while gross margin improved to 30% compared to 5% in the second quarter of 2012 and 12% for the first quarter of 2013.

Operating expenses were unchanged at \$2.3 million in the second quarter, compared to the same period of 2012. R&D expense for the second quarter decreased 13% to \$456,000, compared to \$527,000 in the second quarter of 2012. Sales and marketing expense increased 19% to \$447,000 in the second quarter, from \$376,000 in the year-ago period.

Loss from operations in the second quarter decreased 22% to \$1.7 million, compared to \$2.2 million in the same period of 2012.

Adjusted for one-time IPO-related debt conversion costs, net loss for the second quarter was \$2.3 million, compared to a net loss of \$1.9 million, in the second quarter of 2012. This increase in loss was primarily the result of expense related to a \$170,000 decrease in the fair value of derivative warrant liability, as compared with \$1.5 million in non-cash income related to an increase in fair value of derivative warrant liability in the second quarter of 2012. Interest expense decreased from \$1.1 million in the second quarter of 2012 to \$388,000 in the second quarter of 2013. GAAP net loss for the second quarter of 2013 was \$9.1 million compared to a loss of \$1.9 million for the second quarter of 2012.

## **Six-Month Financial Highlights:**

Revenue for the six months ended June 30, 2013 increased 54% to \$3.1 million, compared with \$2.0 million for the same period of 2012.

Clinical test volume increased 58% to 5,115 tests in the period, compared with 3,233 tests in the first six months of 2012.

Gross profit increased 847% to \$701,000 for the six-month period ended June 30, 2013, from \$74,000 for the same period of 2012, while gross margin improved to 23% compared to 4% in the first six months of 2012.

Operating expenses increased 16% to \$4.7 million in the period, compared to \$4.1 million in the first six months of 2012. R&D expense decreased 9% to \$951,000, compared to \$1.1 million in the same period of 2012. Sales and marketing expense increased 16% to \$832,000 in the six-month period, from \$716,000 in the year-ago period.

Loss from operations for the six months ended June 30, 2013 compared to the same period of 2012 remained unchanged at \$4.0 million.

Adjusted for one-time IPO-related debt conversion costs, net income for the six months ended June 30, 2013 was \$68,000, compared to a net loss of \$2.9 million in the year-ago period. This was primarily the result of non-cash income related to changes in the fair value of derivative warrant liability and \$664,000 received from the sale of certain state tax NOLs. Interest expense for the six-month period of 2013 decreased 14% to \$1.7 million from \$1.9 million in the six month period of 2012. As of the Company's initial public offering in April 2013, \$9.6 million of debt was converted to equity, which is expected to significantly decrease interest expense going forward. GAAP net loss for the six months ended June 30, 2013 was \$6.8 million compared to a loss of \$2.9 million for the same period in 2012.

In April, CGI completed a 690,000 share equity offering, including the 90,000 share overallotment option, for which the Company received gross proceeds of \$6.9 million. After deducting transaction fees and offering-related expenses not previously paid, CGI netted approximately \$5.0 million. As of June 30, cash-on-hand was \$1.9 million, compared to \$217,000 at March 31, 2013. Cash used in operations for the six months ended June 30, 2013 was \$3.7 million, compared to \$4.1 million cash used in the first six months of 2012.

### **Recent Business Highlights:**

- Completed global launch of new proprietary test for cervical cancer management, FFACT™. Study on FFACT™ published in collaboration with the National Cancer Institute.
- Expanded clinical sales force with additions in Midwest and New York City; additional sales rep for Northern New Jersey in process.
- Keith Brownlie, a former audit partner at Ernst & Young and its former Life Science Industry Leader for the New York Metro Area, became a member of CGI's board and its audit committee.

### **Meetings & Presentations**

- Presenting at Rodman & Renshaw 15<sup>th</sup> Annual Healthcare Conference taking place September 8-10
- Presenting at Aegis Capital Corp. 2013 Healthcare Conference taking place September 25-28

## About Cancer Genetics

Cancer Genetics, Inc. (CGI) is an emerging leader in DNA-based cancer diagnostics and services some of the most prestigious medical institutions in the world. Our tests target cancers that are difficult to diagnose and predict treatment outcomes. These cancers include hematological, urogenital and HPV-associated cancers. We also offer a comprehensive range of non-proprietary oncology-focused tests and laboratory services that provide critical genomic information to healthcare professionals as well as biopharma and biotech. Our state-of-the-art reference lab is focused entirely on maintaining clinical excellence and is both CLIA certified and CAP accredited and has licensure from several states including New York State. CGI has established strong research collaborations with major cancer centers such as Memorial Sloan-Kettering, The Cleveland Clinic, Mayo Clinic and the National Cancer Institute. For further information, please see [www.cancergenetics.com](http://www.cancergenetics.com).

## Forward Looking Statements

*This press release contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. All statements pertaining to future financial and/or operating results, future growth in research, technology, clinical development and potential opportunities for Cancer Genetics, Inc. products and services, along with other statements about the future expectations, beliefs, goals, plans, or prospects expressed by management constitute forward-looking statements. Any statements that are not historical fact (including, but not limited to, statements that contain words such as "will," "believes," "plans," "anticipates," "expects," "estimates") should also be considered to be forward-looking statements. Forward-looking statements involve risks and uncertainties, including, without limitation, risks inherent in the development and/or commercialization of potential products, uncertainty in the results of clinical trials or regulatory approvals, need and ability to obtain future capital, and maintenance of intellectual property rights and other risks discussed in the Company's Form 10-Q for the quarter ended June 30, 2013 and other filings with the Securities and Exchange Commission. These forward-looking statements speak only as of the date hereof. Cancer Genetics disclaims any obligation to update these forward-looking statements.*

### Cancer Genetics, Inc. and Subsidiary Consolidated Balance Sheets

|   | June 30,<br>2013<br>(Unaudited) | December 31,<br>2012 |
|---|---------------------------------|----------------------|
| <b>ASSETS</b>   |                                 |                      |
| CURRENT ASSETS  |                                 |                      |
| Cash and cash equivalents   | \$ 1,940,808                    | \$ 819,906           |
| Accounts receivable, net of allowance for doubtful accounts of \$36,000 | 1,263,241                       | 850,545              |
| Other current assets  | 708,914                         | 489,278              |
| <b>Total current assets</b>   | <b>3,912,963</b>                | 2,159,729            |
| FIXED ASSETS, net of accumulated depreciation                           | 856,433                         | 964,923              |
| OTHER ASSETS  |                                 |                      |
| Security deposits   | 1,564                           | 1,564                |

|  |                            |                            |
|--|----------------------------|----------------------------|
| Restricted cash  | 300,000                    | 250,000                    |
| Loan guarantee and financing fees, net of accumulated amortization of 2013 \$996,145; 2012 \$929,498 | 892,855                    | 1,907,502                  |
| Patents  | 348,828                    | 324,764                    |
| Deferred offering costs  | 142,941                    | 3,343,289                  |
|  | <u>1,686,188</u>           | <u>5,827,119</u>           |
| <b>Total Assets</b>  | <b><u>\$ 6,455,584</u></b> | <b><u>\$ 8,951,771</u></b> |

#### LIABILITIES AND STOCKHOLDERS' DEFICIT

##### CURRENT LIABILITIES

|   |                   |                   |
|---|-------------------|-------------------|
| Accounts payable and accrued expenses             | \$ 2,743,141      | \$ 4,578,761      |
| Obligations under capital leases, current portion | 16,211            | 17,158            |
| Deferred revenue                                  | 318,781           | 468,010           |
| Notes payable, current portion                    | 1,564,014         | 3,836,567         |
| Line of credit                                    | 7,996,500         | 2,871,200         |
| <b>Total current liabilities</b>                  | <b>12,638,647</b> | <b>11,771,696</b> |
| Obligations under capital leases                  | —                 | 7,490             |
| Deferred rent payable                             | 167,543           | 164,298           |
| Notes payable, long-term                          | —                 | 2,440,683         |
| Line of credit                                    | —                 | 6,000,000         |
| Warrant liability                                 | 518,000           | 12,549,000        |
|   | <u>13,324,190</u> | <u>32,933,167</u> |
| <b>Total liabilities</b>                          |                   |                   |

##### STOCKHOLDERS' DEFICIT

|   |                            |                            |
|---|----------------------------|----------------------------|
| Series A Preferred Stock, authorized 588,000 shares \$0.0001 par value (converted to common stock on April 10, 2013), 587,691 shares issued and outstanding in 2012   | —                          | 59                         |
| Series B Preferred Stock, authorized 2,000,000 shares \$0.0001 par value (converted to common stock on April 10, 2013), 1,821,600 shares issued and outstanding in 2012                                     | —                          | 182                        |
| Common stock, authorized 100,000,000 and 24,000,000 shares, respectively, \$0.0001 par value, 4,316,691 and 1,349,936 shares issued and outstanding as of June 30, 2013 and December 31, 2012, respectively | 432                        | 135                        |
| Additional paid-in capital  | 48,864,777                 | 24,970,255                 |
| Treasury stock  | —                          | (17,442)                   |
| Accumulated deficit   | (55,733,815)               | (48,934,585)               |
| <b>Total Stockholders' Deficit</b>  | <b>(6,868,606)</b>         | <b>(23,981,396)</b>        |
| <b>Total Liabilities and Stockholders' Deficit</b>  | <b><u>\$ 6,455,584</u></b> | <b><u>\$ 8,951,771</u></b> |

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

|                  | Three Months Ended June 30, |              | Six Months Ended June 30, |              |
|------------------|-----------------------------|--------------|---------------------------|--------------|
|                  | 2013                        | 2012         | 2013                      | 2012         |
| Revenue          | \$ 1,831,649                | \$ 1,148,475 | \$ 3,050,316              | \$ 1,983,227 |
| Cost of revenues | 1,279,274                   | 1,085,633    | 2,349,294                 | 1,908,685    |

|   |                       |                       |                       |                       |
|---|-----------------------|-----------------------|-----------------------|-----------------------|
| <b>Gross profit</b>                         | <b>552,375</b>        | 62,842                | <b>701,022</b>        | 74,542                |
| Operating expenses:                         |                       |                       |                       |                       |
| Research and development                    | <b>455,570</b>        | 526,730               | <b>950,597</b>        | 1,050,241             |
| Sales and marketing                         | <b>446,468</b>        | 376,281               | <b>831,955</b>        | 715,849               |
| General and administrative                  | <b>1,384,123</b>      | 1,393,495             | <b>2,961,374</b>      | 2,329,652             |
| <b>Total operating expenses</b>             | <b>2,286,161</b>      | 2,296,506             | <b>4,743,926</b>      | 4,095,742             |
| <b>Loss from operations</b>                 | <b>(1,733,786)</b>    | (2,233,664)           | <b>(4,042,904)</b>    | (4,021,200)           |
| Other (expense) income:                     |                       |                       |                       |                       |
| Interest expense                            | <b>(389,319)</b>      | (1,082,797)           | <b>(1,683,308)</b>    | (1,947,778)           |
| Interest income                             | <b>744</b>            | —                     | <b>1,354</b>          | —                     |
| Debt conversion costs                       | <b>(6,849,830)</b>    | —                     | <b>(6,849,830)</b>    | —                     |
| Change in fair value of warrant liability   | <b>(170,000)</b>      | 1,456,000             | <b>5,129,000</b>      | 3,036,000             |
| <b>Total other (expense) income</b>         | <b>(7,408,405)</b>    | 373,203               | <b>(3,402,784)</b>    | 1,088,222             |
| <b>Loss before income taxes</b>             | <b>(9,142,191)</b>    | (1,860,461)           | <b>(7,445,688)</b>    | (2,932,978)           |
| Income tax provision (benefit)              | —                     | —                     | <b>(663,900)</b>      | —                     |
| <b>Net loss</b>                             | <b>\$ (9,142,191)</b> | <b>\$ (1,860,461)</b> | <b>\$ (6,781,788)</b> | <b>\$ (2,932,978)</b> |
| Basic net loss per share                    | <b>\$ (2.29)</b>      | \$ (1.38)             | <b>\$ (2.54)</b>      | \$ (2.19)             |
| Diluted net loss per share                  | <b>\$ (2.29)</b>      | \$ (2.32)             | <b>\$ (4.46)</b>      | \$ (4.20)             |
| Basic Weighted Average Shares Outstanding   | <b>3,985,663</b>      | 1,346,124             | <b>2,667,799</b>      | 1,337,702             |
| Diluted Weighted Average Shares Outstanding | <b>3,985,663</b>      | 1,429,735             | <b>2,667,799</b>      | 1,421,313             |

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

**Six Months Ended June 30,**  
**2013**      **2012**

**CASH FLOWS FROM OPERATING ACTIVITIES**

|   |                       |                |
|---|-----------------------|----------------|
| Net (loss)  | <b>\$ (6,781,788)</b> | \$ (2,932,978) |
| Adjustments to reconcile net (loss) to net cash used in operating activities: |                       |                |
| Depreciation  | <b>151,066</b>        | 173,496        |
| Amortization  | <b>7,615</b>          | 7,614          |
| Provision for bad debts   | —                     | (4,543)        |
| Equity-based consulting and compensation expenses                             | <b>215,219</b>        | 564,684        |
| Equity-based research and development expenses                                | <b>74,650</b>         | —              |
| Change in fair value of warrant liability                                     | <b>(5,129,000)</b>    | (3,036,000)    |
| Amortization of loan guarantee and financing fees                             | <b>612,605</b>        | 547,381        |
| Accretion of discount on debt   | <b>581,193</b>        | 928,463        |
| Deferred rent   | <b>3,245</b>          | 4,741          |
| Deferred initial public offering costs expensed                               | <b>617,706</b>        | —              |

|   |                     |                    |
|---|---------------------|--------------------|
| Write-off of debt conversion costs  | 6,849,830           | —                  |
| Change in working capital components:   |                     |                    |
| Accounts receivable   | (412,696)           | (43,211)           |
| Other current assets  | (219,636)           | (205,525)          |
| Accounts payable, accrued expenses and deferred revenue                           | (335,837)           | (105,807)          |
| <b>Net cash (used in) operating activities</b>                                    | <b>(3,765,828)</b>  | <b>(4,101,685)</b> |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                                       |                     |                    |
| Purchase of fixed assets  | (42,576)            | (27,333)           |
| Patent costs  | (31,679)            | (149,000)          |
| Increase in restricted cash   | (50,000)            | (50,000)           |
| <b>Net cash (used in) investing activities</b>                                    | <b>(124,255)</b>    | <b>(226,333)</b>   |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                                       |                     |                    |
| Principal payments on capital lease obligations                                   | (8,437)             | (21,474)           |
| Proceeds from initial public offering of common stock, net of offering costs      | 5,054,514           | —                  |
| Payment of equity issuance costs for secondary public offering                    | (92,941)            | (1,286,199)        |
| Proceeds from warrant exercises   | 96,000              | 619,980            |
| Proceeds from borrowings on notes payable   | —                   | 3,000,000          |
| Principal payments on notes payable   | (38,151)            | —                  |
| <b>Net cash provided by financing activities</b>                                  | <b>5,010,985</b>    | <b>2,312,307</b>   |
| <b>Net increase (decrease) in cash and cash equivalents</b>                       | <b>1,120,902</b>    | <b>(2,015,711)</b> |
| <b>CASH AND CASH EQUIVALENTS</b>  |                     |                    |
| Beginning   | 819,906             | 2,417,256          |
| Ending  | <u>\$ 1,940,808</u> | <u>\$ 401,545</u>  |
| <b>SUPPLEMENTAL CASH FLOW DISCLOSURE</b>  |                     |                    |
| Cash paid for interest  | \$ 489,509          | \$ 484,936         |
| <b>SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES</b>      |                     |                    |
| Warrants issued for financing fees  | \$ 47,000           | \$ 601,000         |
| Warrants issued with debt   | —                   | 940,000            |
| Warrants issued for debt guarantee fee  | —                   | 755,000            |
| Accrued offering costs  | 50,000              | 1,140,626          |
| Offering costs discounted   | 733,250             | —                  |
| Accrued expenses reclassified as derivative warrant liability                     | 221,000             | 148,000            |
| Accrued expenses recorded as financing fees                                       | —                   | 274,000            |
| Retirement of treasury stock  | 17,442              | —                  |
| Conversion of notes payable, lines of credit and accrued interest to common stock | 9,364,300           | —                  |
| Conversion of preferred stock to common stock                                     | 241                 | —                  |
| Reclassification of derivative warrants   | 7,170,000           | —                  |
| Reclassification of deferred offering costs to additional paid in capital         | 1,992,333           | —                  |

#### RECONCILIATION OF GAAP NET LOSS TO NON-GAAP ADJUSTED NET LOSS

|                                | For the Three Months Ended<br>June 30, |                |
|--------------------------------|--|----------------|
|                                | 2013                                   | 2012           |
| <b>Net Loss</b>                | (9,142)                                | (1,860)        |
| <i>Adjustments to Net Loss</i> |  |                |
| One-Time Debt Conversion Costs | (6,850)                                | --             |
| <b>Adjusted Net Loss</b>       | <b>(2,292)</b>                         | <b>(1,860)</b> |

The non-GAAP metric above is not a substitute for GAAP but is viewed as useful by management this quarter because of its recent IPO.

#### RECONCILIATION OF GAAP NET LOSS TO NON-GAAP ADJUSTED NET INCOME (LOSS)

|                                   | For the Six Months Ended<br>June 30, |                |
|-----------------------------------|--------------------------------------|----------------|
|                                   | 2013                                 | 2012           |
| <b>Net Loss</b>                   | (6,782)                              | (2,933)        |
| <i>Adjustments to Net Loss</i>    |                                      |                |
| One-Time Debt Conversion Costs    | (6,850)                              | --             |
| <b>Adjusted Net Income (Loss)</b> | <b>68</b>                            | <b>(2,933)</b> |

The non-GAAP metric above is not a substitute for GAAP but is viewed as useful by management this quarter because of its recent IPO.

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Source: Cancer Genetics