

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

FORM 8-K

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

Date of Report (Date of earliest event reported): **December 2, 2020**

CANCER GENETICS, INC.

(Exact Name of Company as Specified in its Charter)

Delaware
(State or Other Jurisdiction
of Incorporation)

001-35817
(Commission
File Number)

04-3462475
(IRS Employer
Identification No.)

201 Route 17 North 2nd Floor, Rutherford, New Jersey 07070
(Address of Principal Executive Offices) (Zip Code)

Company's telephone number, including area code **(201) 528-9200**

(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the Company under any of the following provisions (see
General Instruction A.2. below):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Indicate by check mark whether the Company is an emerging growth company as defined by Rule 405 of the Securities Act of 1933 (17 §230.405) or Rule 12b-2 of the Securities Exchange Act of 1934 (17 CFR §240.12b-2).

Emerging growth company

If an emerging growth company, indicate by check mark if the Company 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.

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

<u>Title of each class</u>	<u>Trading Symbol(s)</u>	<u>Name of each exchange on which registered</u>
Common Stock	CGIX	The Nasdaq Capital Market

Item 8.01 Other Events.

As previously announced, on August 21, 2020, the Cancer Genetics, Inc. (the "Company" or "CGI") entered into an Agreement and Plan of Merger and Reorganization ("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.

On November 12, 2020, the Company filed its Quarterly Report on Form 10-Q for the quarter ended September 30, 2020, and on December 2, 2020, the Company updated the unaudited pro forma condensed combined financial statements as of September 30, 2020 originally filed with the Company's registration statement on Form S-4 on October 16, 2020, which illustrate the estimated effects of the pending Merger between StemoniX and the Company based on the historical financial position and results of operations of StemoniX and the Company. The updated pro forma financial statements and the historical unaudited interim financial statements of StemoniX, Inc. for the nine months ended September 30, 2020, and the notes related thereto, are filed with this Current Report on Form 8-K as Exhibits 99.2 and 99.1, respectively, and are incorporated into this Item 8.01 by reference in their entirety.

Additional Information about the Proposed Merger and Where to Find It

In connection with the proposed merger between CGI and StemoniX, Inc. ("StemoniX"), CGI has filed relevant materials with the Securities and Exchange Commission (the "SEC"), including a registration statement on Form S-4 that contains a proxy statement/prospectus/information statement. INVESTORS AND SECURITY HOLDERS OF CGI AND STEMONIX ARE URGED TO READ THESE MATERIALS (AS WELL AS AMENDMENTS AND SUPPLEMENTS THERETO AND ANY DOCUMENTS INCORPORATED BY REFERENCE THEREIN) WHEN THEY BECOME AVAILABLE BECAUSE THEY WILL CONTAIN IMPORTANT INFORMATION ABOUT CGI, STEMONIX AND THE PROPOSED MERGER. The proxy statement/prospectus/information statement and other relevant materials (when they become available), and any other documents filed by CGI with the SEC, may be obtained free of charge at the SEC website at www.sec.gov. In addition, investors and security holders may obtain free

copies of the documents filed with the SEC by CGI by directing a written request to: Cancer Genetics, Inc., c/o John A. Roberts, Chief Executive Officer, 201 Route 17 North 2nd Floor, Rutherford, NJ 07070. Investors and security holders are urged to read the Registration Statement and the other relevant materials when they become available before making any voting or investment decision with respect to the proposed merger.

This report shall not constitute an offer to sell or the solicitation of an offer to sell or the solicitation of an offer to buy any securities, nor shall there be any sale of securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction. No offering of securities in connection with the proposed merger shall be made except by means of a prospectus meeting the requirements of Section 10 of the Securities Act of 1933, as amended.

Participants in the Solicitation

CGI and its directors and executive officers and StemoniX and its directors and executive officers may be deemed to be participants in the solicitation of proxies from the shareholders of CGI in connection with the proposed transaction under the rules of the SEC. Information about the directors and executive officers of CGI and their ownership of shares of CGI's common stock is set forth in its Annual Report on Form 10-K for the year ended December 31, 2019, which was filed with the SEC on May 29, 2020, and in subsequent documents filed and to be filed with the SEC, including the Registration Statement referred to above. Additional information regarding the persons who may be deemed participants in the proxy solicitations and a description of their direct and indirect interests in the proposed merger, by security holdings or otherwise, are included in the Registration Statement and other relevant materials to be filed with the SEC when they become available. These documents are available free of charge at the SEC web site (www.sec.gov) and from the Chief Executive Officer at CGI at the address described above.

Forward-Looking Statements

This report including Exhibit 99.1 furnished herewith, contains "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. CGI and StemoniX generally identify forward-looking statements by terminology such as "may," "should," "expects," "plans," "anticipates," "could," "intends," "target," "projects," "contemplates," "believes," "estimates," "predicts," "potential" or "continue" or the negative of these terms or other similar words. These statements are only predictions. CGI and StemoniX have based these forward-looking statements largely on their then-current expectations and projections about future events and financial trends as well as the beliefs and assumptions of management. Forward-looking statements are subject to a number of risks and uncertainties, many of which involve factors or circumstances that are beyond each of CGI's and StemoniX's control. CGI's and StemoniX's actual results could differ materially from those stated or implied in forward-looking statements due to a number of factors, including but not limited to: (i) risks associated with CGI's and StemoniX's ability to obtain the shareholder approval required to consummate the proposed merger transaction and the timing of the closing of the proposed merger transaction, including the risks that a condition to closing would not be satisfied within the expected timeframe or at all or that the closing of the proposed merger transaction will not occur; (ii) the outcome of any legal proceedings that may be instituted against the parties and others related to the Merger Agreement relating to the merger; (iii) the occurrence of any event, change or other circumstance or condition that could give rise to the termination of the Merger Agreement, (iv) unanticipated difficulties or expenditures relating to the proposed merger transaction, the response of business partners and competitors to the announcement of the proposed merger transaction, and/or potential difficulties in employee retention as a result of the announcement and pendency of the proposed merger transaction; (v) volatility and uncertainty in the financial markets and general economic conditions, which could have an adverse impact on CGI and/or StemoniX, and (vi) those risks detailed in CGI's most recent Annual Report on Form 10-K and Quarterly Report on Form 10-Q, and subsequent reports filed with the SEC, as well as other documents that may be filed by CGI from time to time with the SEC. Accordingly, you should not rely upon forward-looking statements as predictions of future events. Neither CGI nor StemoniX can assure you that the events and circumstances reflected in the forward-looking statements will be achieved or occur, and actual results could differ materially from those projected in the forward-looking statements. The forward-looking statements made in this communication relate only to events as of the date on which the statements are made. Except as required by applicable law or regulation, CGI and StemoniX undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date on which the statement is made or to reflect the occurrence of unanticipated events.

Item 9.01 Financial Statements and Exhibits.

(d) Exhibits

Exhibit No.	Description
99.1	The unaudited interim condensed financial statements of StemoniX, Inc. as of September 30, 2020 and for the nine months ended September 30, 2020 and 2019, and the notes related thereto.
99.2	Unaudited pro forma condensed combined financial statements.

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 hereunto duly authorized.

December 2, 2020

Cancer Genetics, Inc.

By: /s/ John A. Roberts
Name: John A. Roberts
Title: President and Chief Executive Officer

STEMONIX, INC.
BALANCE SHEETS
(unaudited)
(Shares and USD in Thousands)

	As of September 30, 2020	As of December 31, 2019
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,955	\$ 315
Accounts and other receivables	403	230
Inventory	390	372
Prepaid expenses and other current assets	253	311
Total current assets	<u>\$ 3,001</u>	<u>\$ 1,228</u>
Non-current assets:		
Fixed assets, net	1,119	1,589
Right-of-use asset, net	1,203	1,200
Deposits	133	176
Total non-current assets	<u>\$ 2,455</u>	<u>\$ 2,965</u>
TOTAL ASSETS	<u>\$ 5,456</u>	<u>\$ 4,193</u>
LIABILITIES, TEMPORARY EQUITY AND COMMON STOCKHOLDERS' DEFICIT		
Current liabilities:		
Accounts payable	\$ 1,132	\$ 422
Accrued expenses	297	153
Obligations under operating leases, current portion	468	508
Obligations under finance leases, current portion	20	76
Current portion of long-term debt	42	-
Other current liabilities	82	90
Total current liabilities	<u>\$ 2,041</u>	<u>\$ 1,249</u>
Non-current liabilities:		
Obligations under operating leases, less current portion	754	717
Share settlement obligation derivative	1,340	-
Long-term debt	6,379	83
Total liabilities	<u>\$ 10,514</u>	<u>\$ 2,049</u>
Commitments and contingencies		
Temporary equity:		
Series A Convertible Preferred stock, \$0.0001 par value; 4,700 shares authorized, and 4,612 and 4,612 issued and outstanding, respectively, as of September 30, 2020 and December 31, 2019 (liquidation value of \$11,732 and \$11,732, respectively, as of September 30, 2020 and December 31, 2019)	12,356	12,356
Series B Convertible Preferred stock, \$0.0001 par value; 4,700 shares authorized, and 3,504 and 3,735 shares issued and outstanding, respectively, as of September 30, 2020 and December 31, 2019 (liquidation value of \$15,786 and \$17,055, respectively, as of September 30, 2020 and December 31, 2019)	16,732	18,045
Total temporary equity	<u>\$ 29,088</u>	<u>\$ 30,401</u>
Common stockholders' deficit:		
Common stock, \$0.0001 par value, 100,000 shares authorized, and 2,578 and 2,456 shares issued and outstanding, respectively, as of September 30, 2020 and December 31, 2019	-	-
Additional paid-in capital	1,454	1,047
Accumulated deficit	(35,600)	(28,257)
Total common stockholders' deficit	<u>\$ (34,146)</u>	<u>\$ (28,257)</u>
TOTAL LIABILITIES, TEMPORARY EQUITY AND COMMON STOCKHOLDERS' DEFICIT	<u>\$ 5,456</u>	<u>\$ 4,193</u>

The accompanying notes are an integral part of these unaudited condensed financial statements.

STEMONIX, INC.
STATEMENTS OF OPERATIONS
(Unaudited)
(Shares and USD in Thousands)

	Nine months ended September 30,	
	2020	2019
Revenues:		
Service	\$ 414	\$ 213
Product	188	186
Total revenues	<u>\$ 602</u>	<u>\$ 399</u>
Operating expenses:		
Cost of goods sold – service	300	137
Cost of goods sold – product	560	1,239
Research and development	2,469	2,783

Selling, general and administrative		2,060	2,764
Merger related costs		1,042	-
Total operating costs and expenses	\$	6,431	\$ 6,923
Loss from operations	\$	(5,829)	\$ (6,524)
Other (expense) income:			
Change in fair value of share settlement obligation derivative liability		(220)	-
Interest income		-	18
Interest expense		(247)	(10)
Total other (expense) income	\$	(467)	\$ 8
Loss before income taxes	\$	(6,296)	\$ (6,516)
Income tax (benefit)		-	-
Net loss	\$	(6,296)	\$ (6,516)
Net loss per common share:			
Net loss per share attributable to common stock shareholders- Basic and Diluted	\$	(2.54)	\$ (2.71)
Weighted average shares outstanding:			
Weighted average common shares outstanding- Basic and Diluted		2,476	2,405

The accompanying notes are an integral part of these unaudited condensed financial statements.

STEMONIX, INC.
STATEMENTS OF TEMPORARY EQUITY AND COMMON STOCKHOLDERS' DEFICIT
(Unaudited)
(Shares and USD in Thousands)

For the nine months ended September 30, 2020

	Series A Preferred Stock		Series B Preferred Stock		Total Temporary Equity	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Total Common Stockholders' Deficit
	Shares	Amount	Shares	Amount		Shares	Amount			
Balance as of December 31, 2019	4,612	\$ 12,356	3,735	\$ 18,045	\$ 30,401	2,456	-	\$ 1,047	\$ (29,304)	\$ (28,257)
Stock-based compensation	-	-	-	-	-	-	-	170	-	170
Issuance of shares for services	-	-	5	30	30	20	-	40	-	40
Exercise of stock options	-	-	-	-	-	47	-	85	-	85
Related party note payable exchange for stock option exercise	-	-	-	-	-	12	-	26	-	26
Executives deferred compensation settled with restricted stock	-	-	-	-	-	43	-	86	-	86
Issuance of Series B Convertible Preferred shares, net of issuance costs of \$41	-	-	236	1,250	1,250	-	-	-	-	-
Exchange of Series B Preferred Stock for 2020 Convertible Notes	-	-	(472)	(2,593)	(2,593)	-	-	-	-	-
Net loss	-	-	-	-	-	-	-	-	(6,296)	(6,296)
Balance as of September 30, 2020	<u>4,612</u>	<u>\$ 12,356</u>	<u>3,504</u>	<u>\$ 16,732</u>	<u>\$ 29,088</u>	<u>2,578</u>	<u>-</u>	<u>\$ 1,454</u>	<u>\$ (35,600)</u>	<u>\$ (34,146)</u>

The accompanying notes are an integral part of these unaudited condensed financial statements.

STEMONIX, INC.
STATEMENTS OF TEMPORARY EQUITY AND COMMON STOCKHOLDERS' DEFICIT
(Unaudited)

(Shares and USD in Thousands)

For the nine months ended September 30, 2019

	Series A Preferred Stock		Series B Preferred Stock		Total Temporary Equity	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Total Common Stockholders' Deficit
	Shares	Amount	Shares	Amount		Shares	Amount			
Balance as of December 31, 2018	4,612	\$ 12,356	3,164	\$ 15,072	\$ 27,428	2,384	\$ -	\$ 690	\$ (20,348)	\$ (19,658)
Stock-based compensation	-	-	-	-	-	-	-	189	-	189
Issuance of shares for services	-	-	-	-	-	35	-	72	-	72
Exercise of stock options	-	-	-	-	-	12	-	15	-	15
Issuance of Series B Convertible Preferred shares, net of issuance costs of \$34	-	-	480	2,481	2,481	-	-	-	-	-
Net loss	-	-	-	-	-	-	-	-	(6,516)	(6,516)
Balance as of September 30, 2019	<u>4,612</u>	<u>\$ 12,356</u>	<u>3,644</u>	<u>\$ 17,553</u>	<u>\$ 29,909</u>	<u>2,431</u>	<u>\$ -</u>	<u>\$ 966</u>	<u>\$ (26,864)</u>	<u>\$ (25,898)</u>

The accompanying notes are an integral part of these unaudited condensed financial statements.

STEMONIX, INC.
STATEMENTS OF CASH FLOWS
(Unaudited)
(Thousands in USD)

	Nine months ended September 30,	
	2020	2019
Cash Flows from Operating Activities:		
Net loss	\$ (6,296)	\$ (6,516)
Reconciliation of net loss to net cash used in operating activities:		
Depreciation expense	428	387
Amortization of operating lease right-of-use assets	370	327
Change in fair value of share settlement obligation derivative	220	-
Accretion of debt discount	116	-
Stock-based compensation	326	261
PPP loan forgiveness	(649)	-
Loss on disposal of equipment	29	-
Changes in operating assets and liabilities:		
Accounts and other receivables	(173)	34
Inventory	(18)	(126)
Prepaid expenses and other current assets	101	(24)
Accounts payable	710	215
PPP loan	730	-
Obligations under operating leases	(375)	(311)
Accrued expenses and other current liabilities	135	(86)
Net cash used in operating activities	<u>\$ (4,346)</u>	<u>\$ (5,839)</u>
Cash Flows from Investing Activities:		
Purchase of equipment	(6)	(376)
Proceeds from sale of equipment	17	-
Net cash provided by (used in) investing activities	<u>\$ 11</u>	<u>\$ (376)</u>
Cash Flows from Financing Activities:		
Issuance of shares, net of issuance costs	1,335	2,496
Convertible note proceeds, net of issuance costs	4,548	-
Proceeds from EIDL loan and repayable grant	67	-
Principal payments on obligations under finance leases	(55)	(53)
Restricted cash	-	207
Proceeds from related party notes payable	80	-
Net cash provided by financing activities	<u>\$ 5,975</u>	<u>\$ 2,650</u>
Net increase (decrease) in cash and cash equivalents	1,640	(3,565)
Cash and cash equivalents, beginning of the period	315	5,647
Cash and cash equivalents, end of the period	<u>\$ 1,955</u>	<u>\$ 2,082</u>
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 5	\$ 10
Cash paid for income taxes	1	2
Non-cash investing activities:		

ROU assets obtained in exchange for lease obligations	\$	373	\$	1,140
Non-cash financing activities:				
Series B Preferred stock exchanged for 2020 Convertible Notes	\$	2,593	\$	-
Related party note payable converted to 2020 Convertible Notes		55		-
Related party note payable exchanged for stock option exercise		26		-

The accompanying notes are an integral part of these unaudited condensed financial statements.

1. Description of Business and Summary of Significant Accounting Policies

(a) Description of Business

StemoniX, Inc. (the “Company”) is empowering the discovery of new medicines through the convergence of novel human biology and software technologies. StemoniX develops and manufactures high-density, at-scale human induced pluripotent stem cell (iPSC) derived neural and cardiac screening platforms for drug discovery and development. The Company was founded in April 2014 and has locations in Maple Grove, Minnesota and La Jolla, California.

(b) Basis of Presentation

The accompanying unaudited condensed interim financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”). The Company operates in one reportable business segment. For purposes of presentation, the Company considers itself a public business entity (“PBE”). There was no other comprehensive income or loss attributable to the nine months ended September 30, 2020 or 2019.

These unaudited condensed interim financial statements should be read in conjunction with the financial statements and accompanying notes for the year ended December 31, 2019. The unaudited condensed interim financial statements do not include all the information and footnotes required by GAAP for complete financial statements. The unaudited interim condensed financial statements have been prepared on the same basis as the audited annual financial statements and, in management’s opinion, include all adjustments consisting of normal recurring adjustments necessary for the fair statement of the Company’s financial position as of September 30, 2020 and its results of operations and cash flows for the nine months ended September 30, 2020 and 2019. The financial data and the other financial information disclosed in the notes to these financial statements related to the nine-month periods are also unaudited. The results of operations for the nine months ended September 30, 2020 and 2019 are not necessarily indicative of the results to be expected for the full fiscal year or any other period.

(c) Cancer Genetics, Inc. Merger

On August 21, 2020, StemoniX, Inc. and Cancer Genetics, Inc. entered into an Agreement and Plan of Merger and Reorganization (“Merger Agreement”). Cancer Genetics and the Company intend to merge a wholly owned subsidiary of Cancer Genetics (“Merger Sub”) with and into StemoniX, Inc. Upon consummation of the merger, Merger Sub will cease to exist, and the Company will continue as the surviving corporation as a wholly owned subsidiary of Cancer Genetics. For U.S. federal income tax purposes, the merger will qualify as a “reorganization”. To consummate the merger, Cancer Genetics will issue shares of Common Stock to the shareholders of the Company and amend Cancer Genetics Certificate of Incorporation based on terms of the Merger Agreement between Cancer Genetics and the Company.

Pursuant to the Merger Agreement, Cancer Genetics will acquire all the outstanding capital stock of the Company in exchange for a number of shares of its common stock with will represent approximately 78% of the outstanding common stock of Cancer Genetics, the remaining 22% the common stock will be retained by Cancer Genetics. The merger will be accounted for as a reverse acquisition with StemoniX being the accounting acquirer of Cancer Genetics. All StemoniX outstanding equity, including Series A Preferred, Series B Preferred, and common stock will be converted to Cancer Genetics equity at a ratio to be determined at close. In addition, the outstanding convertible debt will also be converted to Cancer Genetics shares at close.

During the nine-month period ended September 30, 2020, the Company incurred \$1,042 of costs associated with the Cancer Genetics merger that have been reported on the statement of operations as merger related costs.

(d) COVID-19 and the Potential Impact

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. Many of the Company’s customers worldwide were impacted by COVID-19 and temporarily closed their facilities which impacted revenues in the first half of 2020. Further, the Company’s fund raising was negatively impacted in the first half of 2020 resulting from the COVID-19 pandemic. While the impact of the pandemic have not been as dramatic on our business in the quarter ended September 2020, the global outbreak of COVID-19 is currently rapidly expanding and evolving, and the extent to which the COVID-19 may impact the Company’s future 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.

In April 2020, the Company applied for and received a \$730 loan under the Payroll Protection Plan (“PPP”) as part of the Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”). Under the PPP, the Company was able to receive funds for two and a half months of payroll, rent, utilities, and interest cost. In addition, the Company applied for and received a \$57 Economic Injury Disaster Loan (“EIDL”) loan and a \$10 grant from the Small Business Administration in connection with the COVID-19 impact on the Company’s business. This EIDL loan bears interest at 3.75% is repayable in monthly installments starting in June 2021 with a final balance due on June 21, 2050. The Company has determined that \$649 of the PPP loan will be forgiven resulting in a repayment of \$91, including the \$10 EIDL grant, plus 1.0% interest over a two-year period commencing in November 2020.

The \$649 of PPP loan forgiveness was recorded as a reduction in operating expenses in the first nine months of 2020.

The Company is actively monitoring the impact of the COVID-19 pandemic on its business, results of operations and financial condition. The full extent to which the COVID-19 pandemic will directly or indirectly impact the Company’s business, results of operations and financial condition in the future is unknown at this time and will depend on future developments that are highly unpredictable.

(e) Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The Company’s significant estimates include estimated transaction price, including variable consideration, of the Company’s revenue contracts; the useful lives of fixed assets; the valuation of derivatives, deferred tax assets, inventory, investments, notes receivable, lease liabilities and right-of-use assets, and stock-based compensation, income tax uncertainties, and other contingencies.

(f) Revenue Recognition

The Company recognizes revenue when it satisfies performance obligations under the terms of its contracts, and transfers control of the product to its customers in an amount that reflects the consideration the Company expects to receive from its customers in exchange for those products.

For service contracts, revenue is recognized over time and is generally defined pursuant to an enforceable right to payment for performance completed on service projects for which the Company has no alternative use as customer furnished compounds are added to Company plates for testing. The Company does not obtain control of the customer furnished compounds as the Company does not have the ability to direct the use. Revenue is measured by the costs incurred to date relative to the estimated total direct costs to fulfill each contract (cost-to-cost method). Incurred costs represent work performed, which corresponds with, and thereby best depicts, the transfer of control to the customer. Contract costs include labor, materials and overhead.

Contract assets primarily represent revenue earnings over time that are not yet billable based on the terms of the contracts. Contract liabilities consist of fees invoiced or paid by the Company's customers for which the associated performance obligations have not been satisfied and revenue has not been recognized based on the Company's revenue recognition criteria described above. As of September 30, 2020 and December 31, 2019 the Company recorded a contract asset of \$72 and \$0, respectively, which is included in prepaid expenses and other current assets.

(g) Newly Adopted Accounting Pronouncements

In November 2019, the FASB issued ASU 2019-08, "Compensation—Stock Compensation (Topic 718) and Revenue from Contracts with Customers (Topic 606): Codification Improvements—Share-Based Consideration Payable to a Customer", which clarifies that share-based consideration payable to a customer is measured under stock compensation guidance. Under ASU 2019-08, awards issued to customers are measured and classified following the guidance in Topic 718 while the presentation of the fair value of the award is determined following the guidance in ASC 606. ASU 2019-08 is effective in fiscal years beginning after December 15, 2019. The adoption of this standard on January 1, 2020 did not have an impact on the financial statements as the Company does not grant awards to customers. See Note 8 for further details on the Company's stock compensation plans.

In June 2016, the FASB issued ASU 2016-13, "Financial Instruments - Credit Losses." The standard, including subsequently issued amendments, requires a financial asset measured at amortized cost basis, such as accounts receivable and certain other financial assets, to be presented at the net amount expected to be collected based on relevant information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. This ASU is effective on January 1, 2020, and interim periods within 2020, and requires the modified retrospective approach. Based on the composition of the Company's trade receivables and other financial assets, current market conditions, and historical credit loss activity, the adoption of this standard did not have a material impact on the Company's financial statements and related disclosures.

In August 2018, the FASB issued ASU 2018-13, "Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement", which modifies the disclosure requirements on fair value measurements in ASC 820, Fair Value Measurement. After the adoption of this update, an entity will no longer be required to disclose the amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy; the policy for timing of transfers between levels; the valuation processes for Level 3 fair value measurements. ASU 2018-13 is effective for the Company's annual period beginning January 1, 2020. The amendments on changes in unrealized gains and losses should be applied prospectively for only the most recent period presented in the initial fiscal year of adoption. All other amendments have been applied retrospectively to all periods presented on their effective date. Under this update, the Company's financial statements include fewer disclosures about fair value measurements; however, this will not have a material impact on the Company's financial statements.

2. Going Concern

The Company has a history of operating losses as it has developed its human organoids for drug toxicity and efficacy testing. Through September 30, 2020, the Company's operating activities have all been funded with proceeds from the sale of convertible notes and preferred stock securities. During the nine months ended September 30, 2020, the Company incurred a net loss of \$6,296. As of September 30, 2020, the Company's accumulated deficit was \$35,600. Cash used in operating activities for the period ended September 30, 2020 was \$4,346. As of September 30, 2020, the Company had \$1,955 of available cash to fund ongoing operating activities.

The Company does not expect to be profitable or have positive cash flow during 2020 due to the cost associated with research and development activities and the change in the Company's business model to a drug discovery company. The Company is planning to raise additional capital in 2020 and 2021 to fund human organoid disease model research and development as well as accelerate business development activities. The primary source of capital during 2020 is expected to be derived from the sale of Series B Preferred Stock (referred to herein as "Series B-2", collectively with other Series B issuances, the "Series B Preferred"), convertible notes ("2020 Convertible Notes"), as well as a US Small Business Administration ("SBA") Payroll Protection Program ("PPP") Loan and an SBA Economic Injury Disaster Loan ("EIDL"). From January 1, 2020 through December 2, 2020, the Company raised capital through the sale of Series B-2 preferred stock, net of offering costs, of \$1,250 and 2020 Convertible Notes of \$4,548 as well as received \$730 in a PPP loan and \$67 of EIDL program funding including a \$57 loan and a related \$10 grant. The Company has determined that \$649 of the PPP loan will be forgiven resulting in a repayment of \$91, including the \$10 EIDL grant, plus 1.0% interest over a two-year period commencing in November 2020. The \$649 of PPL loan forgiveness was recorded as a reduction of operating costs in the first nine months of 2020.

As either a stand alone company or in connection with the proposed merger with Cancer Genetic, Inc. the Company expects it will require additional capital to fully implement the scope of its anticipated business operations, which raises substantial doubt about its ability to continue as a going concern. The Company will have to continue to rely on equity and debt financing. There can be no assurance that financing, whether debt or equity, will always be available to the Company in the amount required at any particular time or for any particular period or, if available, that it can be obtained on favorable terms. Accordingly, because of the foregoing circumstances there is substantial doubt about the Company's ability to continue as a going concern within one year after December 2, 2020, the date of issuance of the September 30, 2020 financial statements.

The financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or amounts and classification of liabilities that may result should the Company be unable to continue as a going concern.

3. Inventory

The Company's inventory as of September 30, 2020 and December 31, 2019 consisted of the following:

	As of September 30, 2020	As of December 31, 2019
Raw materials	\$ 292	\$ 241
Work in-process	90	131
Finished goods	8	-

Total inventory

\$ 390 \$ 372

4. Leases

On September 29, 2020, the Company signed a five-year extension of its Maple Grove, Minnesota facility lease. The amendment reduces the Company's rent to \$10 per month plus operating costs and extends the lease through July 31, 2027. The monthly rentals are subject to a 2% annual rate increase. The Company recorded an increase to the ROU asset of \$373 related to this lease amendment.

5. Income Taxes

The Company recognizes deferred tax assets and liabilities for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets include, among others, capitalized research and development costs, net operating loss carryforwards and research and development tax credit carryforwards. Deferred tax assets are partially offset by deferred tax credits arising from fixed assets and lease assets. Realization of net deferred tax assets is dependent upon future earnings, if any, the timing and amount of which are uncertain based on the Company's history of losses. Accordingly, the Company's net deferred tax assets have been fully offset by a valuation allowance. Utilization of operating losses and credits may be subject to substantial annual limitation due to ownership change provisions of Section 382 of the Internal Revenue Code, as amended and similar state provisions. The annual limitation may result in the expiration of net operating losses and credits before utilization.

On March 27, 2020, the President signed the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") into law. The CARES Act is a relief package that includes changes to the US tax code including but not limited to, (1) modifications to the calculation of interest deductibility in 2019 and 2020; (2) changes to rules related to the uses and limitations of net operating loss carryforwards created in 2018-2020 and (3) technical corrections for qualified improvement property. The CARES Act did not have a material impact on the Company's Condensed Statements of Operations for the nine months ended September 30, 2020.

6. Debt

Long-term debt as of September 30, 2020, and December 31, 2019, consists of the following:

	As of September 30, 2020	As of December 31, 2019
Department of Employment and Economic Development loan	\$ 83	\$ 83
Payroll Protection Plan loan	91	-
Economic Injury Disaster Loan	57	-
8% 2020 Convertible Notes, \$7,206 face amount, due July 2022	7,206	-
Total long-term debt before debt issuance costs and debt discount	7,437	83
Less: current portion of long-term debt	(42)	-
Less: debt issuance costs	(11)	-
Less: debt discount (net of accretion of \$116 and \$0, respectively)	(1,005)	-
Total long-term debt	\$ 6,379	\$ 83

Principal repayments due on the long-term debt for the remainder of 2020 and over the next five years are as follows:

Years ending	Amount
December 31, 2020	\$ 8
December 31, 2021	47
December 31, 2022	7,325
December 31, 2023	1
December 31, 2024	1
December 31, 2025	1
Thereafter	54
Total	\$ 7,437

Department of Employment and Economic Development ("DEED") Loan

On March 10, 2015, the Company received an interest free loan from the Minnesota Department of Employment and Economic Development ("DEED") under the State Small Business Credit Initiative Act of 2010. The funds were received under the Angel Loan Fund Program ("ALF") which are provided to early stage small businesses for financial support through direct loans. The DEED approved the Company's application and provided a principal amount not to exceed \$88. Under the terms of the loan, the proceeds shall be used for a business purpose, including, but not limited to, start-up costs, working capital, business procurement, franchise fees, equipment, inventory and construction or renovation of place of business. The loan maturity date is seven years from the execution of the loan agreement, March 10, 2022. If during the seven-year loan term, the Company's outstanding common stock ownership is transferred in one or more transactions to a single person or entity, the outstanding principal will be payable in full, as well as a 30% premium on the current principal sum of \$83.

As of September 30, 2020, and December 31, 2019, the outstanding balance on this loan is \$83, recorded within long-term notes payable in the balance sheets. The loan has an interest rate of 0.0% and may be prepaid in whole or in part at any time without penalty.

Payroll Protection Plan Loan

In April 2020, the Company applied for and received a \$730 loan under the Payroll Protection Plan ("PPP") as part of the Coronavirus Aid, Relief, and Economic Security Act's ("CARES Act"). Under the PPP, the Company was able to receive funds for two and a half months of payroll, rent, utilities, and interest cost. The Company has determined that \$649 of the PPP loan will be forgiven resulting in a repayment of \$91, including the \$10 EIDL grant, plus 1.0% interest over a two-year period commencing in November 2020. The \$649 of PPL loan forgiveness was recorded as a reduction of operating costs as follows: \$192 of manufacturing and quality expenses primarily included in cost of goods sold - products, \$180 of selling, general and administrative expenses and \$277 of research and development expenses.

Economic Injury Disaster Loan

The Company applied for and received a \$57 Economic Injury Disaster Loan ("EIDL") loan and a \$10 grant from the Small Business Administration in connection with the COVID-19 impact on the Company's business. This loan bears interest at 3.75% is repayable in monthly installments starting in June 2021 with a final balance due on June 21,

2020 Convertible Notes

On May 4, 2020, the Company launched a \$5,000 convertible note offering (“2020 Convertible Notes”) which may be increased by up to \$2,000 upon approval by the Board of Directors of the Company in response to investor demand, plus up to \$3,891 of notes in exchange for the cancellation of shares of the Company’s Series B shares issued by the Company on or after September 27, 2019 (referred to herein as “B-2 Shares”). The 2020 Convertible Notes bear interest at 8% and are due on July 31, 2022. The 2020 Convertible Notes are initially convertible into Common stock at a discount of 15% to the per share price of the next \$2,000 in an equity financing round or upon a merger or acquisition. This discount increases to 20% if a note is outstanding for more than six months and 25% if a note is outstanding for more than 12 months. In connection with this note offer, the Series B-2 shareholders may use their Series B-2 shares as consideration to acquire the 2020 Convertible Notes. As of September 30, 2020, the Company has \$7,206 of 2020 Convertible Notes outstanding which includes \$2,593 of notes issued to Series B-2 shareholders in exchange for all their Series B-2 shares. The Company determined that the 2020 Convertible Notes should be classified as non-current liabilities as of September 30, 2020.

The 2020 Convertible Notes and accrued and unpaid interest thereunder will convert as follows:

- (1) Into the next round of equity securities sold by the Company in a financing providing gross proceeds of at least \$2 million to the Company (excluding conversion of the 2020 Convertible Notes and any other convertible securities) (a “Qualified Financing”); or
- (2) Into the Company’s common stock (the “Common Stock”): a) Immediately prior to (I) a reverse merger with a publicly listed company or (II) the closing of an initial public offering, or b) Subject the redemption rights, an acquisition of the Company, a sale of all or substantially all of the Company’s assets and business, a transaction or series of transactions that results in the exclusive licensing of all or substantially all of the Company’s intellectual property, or a liquidation or winding up of the Company or its assets (each, a “Corporate Transaction”)

In all instances, the conversion price of the 2020 Convertible Notes will be the lesser of:

- (1) the applicable percentage (the “Applicable Percentage”) below multiplied by the price per share in the Qualified Financing or the then-fair market value per share of Common Stock, as applicable, if the relevant conversion event occurs: a) 0 – 6 months after the Issue Date: 85%; b) greater than 6 months and less than or equal to 12 months after the Issue Date: 80%; or c) greater than 12 months after the Issue Date and before the Maturity Date: 75%; and
- (2) a per share price reflecting a pre-money, fully-diluted Company valuation of \$57,000, assuming conversion or exercise of all outstanding securities convertible or exercisable for equity securities (other than the 2020 Convertible Notes or any other convertible promissory notes issued after the date hereof) of the Company and the exercise of all outstanding options and warrants to purchase equity securities of the Company, calculated as of immediately prior to the first closing of the Qualified Financing or the event causing conversion into Common Stock, as applicable.

7. Stockholders’ Equity**Common Stock**

Holders of common stock are entitled to one vote per share, and to receive dividends and, upon liquidation or dissolution, are entitled to receive all assets available for distribution to stockholders. The holders have no preemptive or other subscription rights and there are no redemption or sinking fund provisions with respect to such shares. Common stock is subordinate to the preferred stock with respect to dividend rights and rights upon liquidation, winding up and dissolution of the Company.

Preferred Stock

As of September 30, 2020, and December 31, 2019, the Company had 4,612 and 4,612 shares of Series A Preferred Stock (the “Series A Preferred”) issued and outstanding, respectively. Additionally, as of September 30, 2020, and December 31, 2019, the Company had 3,504 and 3,735 shares of Series B Preferred Stock (the “Series B”) issued and outstanding, respectively (collectively the “Preferred Stock”). The Company has classified the Preferred Stock as temporary equity in the Balance Sheets as the Preferred Shareholders control a Deemed Liquidation Event, as defined below, under the terms of the Series A and Series B Preferred Stock as described below.

During the first nine months of 2020, the Company sold 236 shares of Series B Preferred stock for net proceeds of \$1,250. During this same period, owners of 472 shares of Series B Preferred Stock used their shares as consideration to acquire the 2020 Convertible Notes.

In the nine-month period ended September 30, 2019 the Company received proceeds of \$207 from the Series B financing that were classified as restricted cash as of September 30, 2019 as the Company received cash from investors prior to the finance rounds first closing.

Dividends

The Preferred Stock receive non-cumulative dividends at a rate per annum equal to 8% of the applicable original issue price, if and when declared by the Company’s Board of Directors. The Preferred Stockholders receive dividends prior to and in preference to any dividends on Common Stockholders. No dividends on the Preferred Stock have been declared or paid as of September 30, 2020.

Liquidation

Holders of Preferred Stock shares are entitled to receive a liquidation preference prior to any distribution to holders of Common Stock. Upon the occurrence of a Deemed Liquidation Event, Preferred Stock will be redeemed by the Company in an amount equal to the greater of (a) the applicable original issue price per share, plus any declared but unpaid dividends, or (b) the amount a holder of a share of Preferred Stock would receive if the share of Preferred Stock converted to Common Stock immediately prior to the Deemed Liquidation Event. If the amount that would be received under clause (b) then the applicable share of Preferred Stock will be automatically converted into common stock immediately prior to the Deemed Liquidation Event.

Each of the Preferred Stock shares are conditionally puttable by the holders upon “Deemed Liquidation Events,” which includes a merger, consolidation, or a sale of substantially all of the Company’s assets. The Company determined that triggering events that could result in a deemed liquidation are not solely within the control of the Company. Therefore, the Preferred Stock is classified outside of permanent (i.e., temporary equity). The Preferred Stock is not being accreted to its liquidation preference, as it is not probable that the Preferred Stock will become redeemable as of September 30, 2020, and December 31, 2019. The Company continues to monitor circumstances that may cause the Preferred Stock to become probable of becoming redeemable. Subsequent adjustments to the carrying amounts to accrete up to the Preferred Stock redemption values will be made only when the shares become probable of becoming redeemable. The Preferred Stock is subject to standard protective provisions, none of which provide creditor rights.

Conversion

Preferred Stock is convertible at any time, at the option of the holder, into Common Stock at a conversion rate of 1 to 1 initially, subject to adjustments. The applicable conversion prices of each series of Preferred Stock as of September 30, 2020 are as follows:

Series Issued	Issuance Period	Issuance Price	Number Shares Issued	Total Proceeds Received	Conversion Price
Series A	January 2015 – September 2015	\$ 1.070989	841	\$ 901	\$ 1.070989
Series A	February 2017	2.5540752	1,892	4,832	2.5540752
Series A	February 2017 – April 2017	3.192594	1,879	6,000	3.192594
Series B	August 2018	3.85808	1,317	5,081	3.85808
Series B	August 2018 - February 2019	4.8226	1,951	9,409	4.8226
Series B	September 2019 - March 2020	5.49	236	1,298	5.49

Additionally, all outstanding shares of the Preferred Stock shall automatically be converted into shares of underlying Common Stock upon (A) the Company's sale of its Common Stock in an underwritten public offering with a price per share of Common Stock of the Corporation of three times the Applicable Stated Value Per Share of Series B Preferred Convertible Stock (the result of which is the "IPO Price") and which results in gross cash proceeds to the Company of not less than \$25,000, net of underwriting discounts and commissions (a "Qualified IPO"), or (B) upon the written consent of the holders of a majority of the Preferred Stock. The current IPO Price is \$16.47 per share.

Voting Rights

The holders of Preferred Stock shall vote together as a single class (on an as-converted basis) on all matters. Each holder of Preferred Stock is entitled to the number of votes equal to the number of shares of Common Stock into which such shares of Preferred Stock could be converted.

Beneficial Conversion Features ("BCFs")

The Company determined at each issuance date of Preferred Stock, which is also the commitment date of each issuance, that the conversion price of each Preferred Stock series was greater than the Common Stock fair value on that date and therefore, no BCF existed to recognize.

Furthermore, the Preferred Stock contains a weighted-average down-round protection provision that reduces the conversion price if the Company issues shares at less than the conversion price or for no consideration.

8. Stock-Based Compensation

In 2015, the Company adopted a stock compensation plan (the "Plan") pursuant to which the Company's board of directors may grant stock options or nonvested shares to officers, key employees, and non-employee consultants. The Plan was amended in 2017 to authorize 677 shares issuable. The Plan was subsequently amended in 2019 to authorize grants to purchase up to 1,177 shares. Stock options can be granted with an exercise price equal to or greater than the stock's fair value at the date of grant. All awards have 10-year terms and vest based on terms defined in each individual grant agreement.

Because the Company's shares are not publicly traded and its shares are rarely traded privately, expected volatility is estimated based on the average historical volatility of similar entities with publicly traded shares. The risk-free rate for the expected term of the option is based on the U.S. Treasury yield curve at the date of grant.

The Company uses a simplified method to determine the expected term for the valuation of options that vest over time. This method effectively assumes that exercise occurs over the period from vesting until expiration, and therefore the expected term is the midpoint between the service period and the contractual term of the award. The simplified method is applicable to options with service conditions. For options granted to nonemployees, the contractual term is used for the valuation of the options.

As of September 30, 2020, there were 254 additional shares available for the Company to grant under the Plan. The grant-date fair value of each option award is estimated on the date of grant using the Black-Scholes-Merton option-pricing model. The weighted average assumptions for grants in the first nine months of 2020 and 2019 are provided in the following table.

Valuation assumptions	Nine months ended September 30,	
	2020	2019
Expected dividend yield	0.0%	0.0%
Expected volatility	77.9 – 88.3%	77.9 – 80.9%
Expected term (years)	4.8 – 10.0	5.0 – 6.1
Risk-free interest rate	0.24 – 0.91%	1.39 – 2.11%

Stock option activity during the periods indicated is as follows:

	Number of Options	Weighted average exercise price	Weighted average remaining contractual term
Balance as of December 31, 2019	509	\$ 1.30	7.4
Granted	506	2.01	
Exercised	(60)	2.00	
Forfeited	(34)	2.00	
Expired	(155)	1.04	
Balance as of September 30, 2020	766	\$ 1.77	7.8
Exercisable as of September 30, 2020	345	\$ 1.22	6.9

	Number of Options	Weighted average exercise price	Weighted average remaining contractual term
Balance as of December 31, 2018	545	\$ 1.13	8.0
Granted	141	1.94	
Exercised	(12)	1.47	
Forfeited	(53)	1.24	

Expired	(60)	1.24
Balance as of September 30, 2019	<u>561</u>	\$ 1.31
		7.3

Of the options granted in the nine months ended September 30, 2020, 243 were performance-based options. Vesting of these performance-based options is contingent on the occurrence of certain milestones. As of September 30, 2020, none of the performance-based vesting criteria was satisfied and therefore no expense for these awards has been recorded.

The weighted average grant-date fair value of options granted during the first nine months of 2020 and 2019 was \$1.38 and \$1.30, respectively.

The Company recognized \$170 and \$189 of stock compensation expense related to employee stock options for the nine months ended September 30, 2020, and September 30, 2019, respectively, in the statements of operations. Additionally, the Company recognized \$40 and \$68, respectively, of expense for shares issued for services to nonemployees during the periods ended September 30, 2020 and 2019 in the statement of operations. As of September 30, 2020, there was \$231 of total unrecognized compensation cost related to unvested stock options granted under the Plan. That cost is expected to be recognized over a weighted average period of 2.1 years. The total fair value of shares vested during the nine months ended September 30, 2020, and for the year ended December 31, 2019, was \$210 and \$47, respectively.

9. Loss Per Share

Basic loss per share is computed by dividing the net loss after tax attributable to common stockholders by the weighted average shares outstanding during the period. Diluted loss per share is computed by including potentially dilutive securities outstanding during the period in the calculation of weighted average shares outstanding. The Company did not have any dilutive securities during the periods presented; therefore, diluted loss per share is equal to basic loss per share.

Presented in the table below is a reconciliation of the numerator and denominator for the basic and diluted loss per share ("LPS") calculations for the years ended December 31:

	<u>Nine months ended September 30,</u>	
	<u>2020</u>	<u>2019</u>
Net loss after tax attributable to common stockholders	\$ (6,296)	(6,516)
Basic and diluted weighted average shares outstanding	2,476	2,405
Net loss per unit attributable to common stockholder, basic and diluted	<u>\$ (2.54)</u>	<u>(2.71)</u>

The following securities were not included in the computation of diluted shares outstanding because the effect would be anti-dilutive:

	<u>Nine months ended September 30,</u>	
	<u>2020</u>	<u>2019</u>
Series A Preferred Stock	4,612	4,612
Series B Preferred Stock	3,504	3,644
Series A Warrants	49	49
Series B Warrants	10	10
Stock Options	766	561
2020 Convertible Notes	2018	-
Total	<u>10,959</u>	<u>8,876</u>

10. Commitments and Contingencies

Minnesota Angel Tax Credit

During 2015 and 2016, the Company raised capital under the Minnesota Angel Tax Credit program, which provides a 25% State of Minnesota income tax credit to Company investors for each qualifying dollar of investment. Pursuant to this program, the Company is required to maintain certain employment-based metrics within the State of Minnesota. If the Company does not meet these employment metrics during the five-year period from the qualifying investor investment in the Company, it will be required to repay a portion of the tax credits received by its investors from the State of Minnesota. If the Company does not meet these employment metrics in 2020, the Company will be required to repay the State of Minnesota \$93 of the Angel Tax Credits received by its investors. The Company has met the minimum employment metrics as of September 30, 2020 and for all prior years.

11. Fair Value Measurements

The Company's 2020 Convertible Notes contain a share settled redemption feature that requires conversion at the lesser of specified discounts from qualified financing price per share or the fair value of the common stock at the time of conversion. The discount changes based on the passage of time between issuance of the convertible note and the conversion event. This feature is considered a derivative that requires bifurcation because it provide a specified premium to the holder of the note upon conversion. The Company measures the share-settlement derivative obligation at fair value based on significant inputs that are not observable in the market. This results in the liability classified as a Level 3 measurement within the fair value hierarchy. The Company has determined the likelihood of conversion event occurring to be 90% likely as of September 30, 2020 due to plans to merge with Cancer Genetics.

The following tables present changes in Level 3 fair value of the embedded compound derivative for the nine-month period ended September 30, 2020. There were no instruments requiring Level 3 fair values for the first nine months of 2019.

	<u>Embedded Derivative in 2020 Convertible Notes</u>
Balance- beginning of year January 1, 2020	\$ -
Additions	1,120
Exercise or conversion	-
Measurement adjustments	220
Balance- as of September 30, 2020	<u>\$ 1,340</u>

The carrying value of cash and cash equivalents, short-term and long-term debt approximates fair value given the short-term nature of current debt and that the Company

continues to issue 2020 Convertible Notes with similar terms as the convertible debt outstanding at September 30, 2020.

12. Placement Agent Warrants

In connection with the issuance of the Series A Convertible Preferred and Series B Convertible Preferred, the Company issued warrants (the “Series A Warrants” and “Series B Warrants”, respectively, and collectively, the “Warrants”) as compensation to non-employee placement agents. The Series A Warrants and Series B Warrants were issued on April 28, 2017 and May 18, 2018, respectively. The Warrants allow the holder to purchase 49 shares of Series A Convertible Preferred and 10 shares of Series B Convertible Preferred, respectively, at any time prior to the expiration of the Warrants. The Company determined the Warrants should be classified as equity as they were issued as vested share-based payment compensation to nonemployees. The Warrants were recorded in equity at fair value upon issuance with no subsequent remeasurement.

13. Related Party Transactions

In January 2020, a Company officer advanced \$25 to the Company. On August 12, 2020, to settle debt and accrued interest aggregating \$26 owed to the Company officer, the executive used this amount to exercise an existing vested Company stock option and was issued 13 shares of common stock.

In June 2020, a Company officer and Board member advanced \$55 to the Company. On July 10, 2020, the Company rolled over this matured loan into a new \$55 loan. On August 12, 2020, principal and accrued interest owed to the officer and Board member were converted into the 2020 Convertible Notes at the same terms of other third-party investors.

In the first nine months of 2020, related parties including Board members, officers of the Company or their immediate family (“Related Parties”) converted \$1,101, or 201 shares of Series B-2 Preferred Stock into the 2020 Convertible Notes as well as purchased with cash \$232 of the 2020 Convertible Notes. Further, in the first nine-months of 2020 a sibling of a Company officer purchased 8 shares of Series B Preferred Stock for \$44. In all instances the terms of these transactions were the same as third-party investors.

During 2020, three Company executives deferred a portion of their compensation pursuant to the terms of their employment agreements. To settle all deferred compensation amounts through July 31, 2020 aggregating \$86, the Company issued 43 restricted common shares. Any compensation deferred by these three executives between August 1, 2020 and the closing date of the CGI merger, will be paid prior to such merger.

14. Subsequent Events

The Company has evaluated subsequent events from the balance sheet date through December 2, 2020, the date at which the financial statements were available to be issued.

Stock option grants

Since September 30, 2020, the Company has issued 81 common stock options with an exercise price of \$2.01 per share. An aggregate of 45 options were granted to employees pursuant to employment agreements. These options vest over four years. An additional 36 options were issued to new Board members and vest daily over a one-year period.

2020 Convertible Note Issuances

Since September 30, 2020, the Company has issued \$65 principal amount of 2020 Convertible Notes for cash as well as \$80 in principal amount for the exchange of Series B-2 Preferred Shares for the 2020 Convertible Notes.

Contingencies

On November 10, 2020, a purported stockholder of the Cancer Genetics filed a complaint against the Company, Cancer Genetics, CGI Acquisition, Inc. and the directors of Cancer Genetics, Inc. in the District Court of Delaware, entitled, Jason Kauffman v. Cancer Genetics, Inc. et al.. The complaint alleges that Cancer Genetic’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 between the Company, CGI Acquisition, Inc. and Cancer Genetics, as well as costs, among other remedies.

The Company believes that the claim asserted in this lawsuit is without merit and intends to vigorously defend the Company 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 Cancer Genetics, Inc.

UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS

On August 21, 2020, the Cancer Genetics, Inc. (the “Company” or “CGI”) entered into an Agreement and Plan of Merger and Reorganization (“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 unaudited pro forma condensed combined financial information is presented to illustrate the estimated effects of the pending merger between StemoniX and CGI based on the historical financial position and results of operations of StemoniX and CGI. It is presented as follows:

- The unaudited pro forma condensed combined balance sheet as of September 30, 2020 was prepared based on (i) the historical unaudited condensed consolidated balance sheet of CGI as of September 30, 2020 and (ii) the historical unaudited balance sheet of StemoniX as of September 30, 2020.
- The unaudited pro forma combined statement of operations for the year ended December 31, 2019 was prepared based on (i) the historical audited consolidated statement of operations and other comprehensive loss of CGI for the year ended December 31, 2019 and (ii) the historical audited statement of operations of StemoniX for the year ended December 31, 2019.
- The unaudited pro forma condensed combined statement of operations for the nine months ended September 30, 2020 was prepared based on (i) the historical unaudited condensed consolidated statement of operations and other comprehensive loss of CGI for the nine months ended September 30, 2020 and (ii) the historical unaudited statement of operations of StemoniX for the nine months ended September 30, 2020.

While CGI will be the legal acquirer, the merger will be accounted for as a reverse acquisition using the acquisition method of accounting in accordance with Accounting Standards Codification (“ASC”) Topic 805, “Business Combinations” (“ASC 805”). StemoniX will be deemed to be the acquirer for financial accounting purposes. The unaudited pro forma condensed combined financial information set forth below primarily gives effect to the following:

- the consummation of the merger;
- the application of the acquisition method of accounting in connection with the merger;
- the conversion of StemoniX convertible notes and preferred stock into StemoniX common stock;
- the exclusion of discontinued operations in the condensed combined statements of operations;
- the issuance of securities prior to the close of the merger by both CGI and StemoniX in order to meet the net cash targets pursuant to the Merger Agreement to meet the targeted ownership structure of 22% and 78%, respectively;
- the issuance of securities of CGI in a pre-closing private placement transaction (the “Private Placement”), required as a condition to closing pursuant to the Merger Agreement, with expected net proceeds of \$10,000 and
- transaction costs incurred in connection with the merger.

Assumptions underlying the pro forma adjustments are described in the accompanying notes, which should be read in conjunction with the unaudited pro forma condensed combined financial information. The unaudited pro forma condensed combined balance sheet data gives effect to the merger as if it had occurred on September 30, 2020. The unaudited pro forma condensed combined statements of operations data for the nine months ended September 30, 2020 and the year ended December 31, 2019 give effect to the merger as if it had occurred on January 1, 2019.

The unaudited pro forma condensed combined financial information has been presented for informational purposes only and is not necessarily indicative of what the combined company's financial position or results of operations actually would have been had the merger been completed as of the dates indicated. In addition, the unaudited pro forma condensed combined financial information does not purport to project the future financial position or operating results of the combined company. The historical consolidated financial information has been adjusted in the accompanying unaudited pro forma condensed combined financial information to give effect to unaudited pro forma events that are directly attributable to the merger, factually supportable and, with respect to the unaudited pro forma condensed combined statement of operations, expected to have a continuing impact on the results of operations of the combined company. The accompanying unaudited pro forma condensed combined statements of operations do not include any pro forma adjustments to reflect certain expected financial benefits of the merger, such as tax savings, cost synergies or revenue synergies, or the anticipated costs to achieve those benefits, including the cost of integration activities, or restructuring actions which may be achievable or the impact of any non-recurring activity and one-time transaction related costs.

The unaudited pro forma condensed combined financial information has been prepared using the acquisition method of accounting under existing GAAP, which are subject to change. StemoniX will be deemed the accounting acquirer in the merger for accounting purposes and CGI will be treated as the acquiree, based on a number of factors considered at the time of preparation of this Current Report on Form 8-k (this "Form 8-k"), including control over the post-merger company as evidenced by the composition of executive management and the board of directors as well as the relative equity ownership after the closing of the merger. The application of acquisition accounting of CGI is dependent upon the working capital positions at the closing of the merger, is dependent on other factors such as the share price of CGI, and is dependent on certain valuations and other studies that have yet to progress to a stage where there is sufficient information for a definitive measurement. The combined company will complete the valuations and other studies upon completion of the merger and will finalize the purchase price allocation as soon as practicable within the measurement period, but in no event later than one year following the closing date of the merger. The assets and liabilities of CGI and other pro forma adjustments have been measured based on various preliminary estimates using assumptions that CGI and StemoniX believe are reasonable, based on information that is currently available. Accordingly, the pro forma adjustments are preliminary. Differences between these preliminary estimates and the final acquisition accounting could be significant, and these differences could have a material impact on the accompanying unaudited pro forma condensed combined financial information and the combined company's future results of operation and financial position.

The unaudited pro forma condensed combined financial information has been compiled in a manner consistent with the accounting policies adopted by StemoniX. Upon completion of the merger, the combined company will perform a detailed review of CGI's accounting policies and will conform the combined company policies. The combined company may identify additional differences between the accounting policies of the two companies that, when conformed, could have a material impact on the consolidated financial statements of the combined company. Additionally, certain financial information of CGI as presented in its historical consolidated financial statements has been reclassified to conform to the historical presentation in StemoniX's financial statements for purposes of preparation of the unaudited pro forma condensed combined financial information. Transactions between StemoniX and CGI during the periods presented in the unaudited pro forma condensed combined financial information were not significant.

This unaudited pro forma condensed combined financial information was derived from and should be read in conjunction with the accompanying notes, as well as the following historical financial statements and the related notes of StemoniX and CGI:

- Separate historical audited financial statements of StemoniX as of and for the years ended December 31, 2019 and 2018 and the related notes included in CGI's Registration Statement on Form S-4, filed on October 16, 2020 (the "Form S-4"), and unaudited condensed financial statements of StemoniX as of September 30, 2020 and for the nine-month periods ended September 30, 2020 and 2019 and the related notes included in this Form 8-K; and
 - Separate historical audited consolidated financial statements of CGI as of and for the years ended December 31, 2019 and 2018 and the related notes included in CGI's Annual Report on Form 10-K filed on May 29, 2020, and unaudited consolidated financial statements of CGI as of and for the nine months ended September 30, 2020 and the related notes included in CGI's Quarterly Report on Form 10-Q filed on November 12, 2020.
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UNAUDITED PRO FORMA CONDENSED COMBINED BALANCE SHEET
AS OF SEPTEMBER 30, 2020
(thousands in USD)

	Historical as of September 30, 2020		Pro Forma Merger Adjustments		Pro Forma Combined
	StemoniX	Cancer Genetics			
Assets					
Current assets:					
Cash and cash equivalents	\$ 1,955	\$ 1,133	\$ 10,000 2,891 1,387	6F 6E 6G	\$ 17,366
Accounts receivable, net	403	773			1,176
Earn-Out from siParadigm, current portion	-	141			141
Inventories	390	-			390
Prepaid expenses and other current assets	253	754			1,007
Total current assets	3,001	2,801	14,278		20,080
Non-current assets:					
Property and equipment, net	1,119	488			1,607
Operating lease right-of-use assets	1,203	47			1,250
Patents and other intangible assets, net of accumulated amortization	-	2,563	2,637	6B	5,200
Investment in joint venture	-	56			56
Goodwill	-	3,090	389	6A	3,479
Deposits	133	-			133
Other non-current assets	-	645			645
Total non-current assets	2,455	6,889	3,026		12,370
Total assets	\$ 5,456	\$ 9,690	\$ 17,304		\$ 32,450
Liabilities and shareholders' equity					
Current liabilities:					
Accounts payable	\$ 1,132	\$ 2,863	\$ (1,327)	4C	\$ 2,668
Accrued expenses	297	-	1,327 2,271 (129)	4C 6C 6I	3,766
Obligations under operating leases, current portion	468	38	-		506
Obligations under finance leases, current portion	20	53	-		73
Deferred revenue	-	798	-		798
Current portion of long-term debt	42	-	107	6D	149
Due to Interpace Biosciences, Inc.	-	421	-		421
Discontinued operations	-	578	-		578
Other current liabilities	82	-	-		82
Total current liabilities	2,041	4,751	2,249		9,041
Non-current liabilities:					
Obligations under operating leases, less current portion	754	10	-		764
Obligations under finance leases, less current portion	-	79	-		79
Advance from siParadigm, less current portion	-	-	-		-
Long-term debt, less current portion	6,379	-	(83) 1,387 1,005 (8,593)	6D 6G 6I 6I	95
Share settlement obligation derivative	1,340	-	(1,340)	6I	--
Warrant liability	-	45	-		45
Total non-current liabilities	8,473	134	(7,624)		983
Total liabilities	10,514	4,885	(5,375)		10,024
Commitments and contingencies					

	Historical as of September 30, 2020		Pro Forma Merger Adjustments		Pro Forma Combined
	StemoniX	Cancer Genetics			
Temporary equity:					
Series A Convertible Preferred Stock	12,356		(12,356)	6H	-
Series B Convertible Preferred Stock	16,732		(16,732)	6H	-
	<u>\$ 29,088</u>	<u>\$ -</u>	<u>\$ (29,088)</u>		<u>\$ -</u>
Stockholders' equity (deficit):					
Common stock	-	-	2	6J	3
			1	6H	
Additional paid-in capital	1,454	173,517	389	6A	58,180
			2,637	6B	
			(93)	6C	
			2,891	6E	
			10,000	6F	
			27,517	6H	
			8,723	6I	
			(168,855)	6J	
Accumulated deficit	(35,600)	(168,656)	(2,178)	6C	(35,757)
			(24)	6D	
			335	6I	
			1,569	6H	
			168,797	6J	
Accumulated other comprehensive income	-	(56)	56	6J	-
Total stockholders' equity (deficit)	<u>(34,146)</u>	<u>4,805</u>	<u>51,767</u>		<u>22,426</u>
Total liabilities, temporary equity and stockholders' equity (deficit)	<u>\$ 5,456</u>	<u>\$ 9,690</u>	<u>\$ 17,304</u>		<u>\$ 32,450</u>

See accompanying notes to the unaudited pro forma condensed combined financial information.

UNAUDITED PRO FORMA COMBINED STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2019
(thousands in USD except per share amounts)

	Historical for the year ended December 31, 2019		Pro Forma Merger Adjustments		Pro Forma Combined
	StemoniX	Cancer Genetics			
Revenues:					
Service	\$ 371	\$ 7,305	\$ -	4A	\$ 7,676
Product	234	-	-		234
Total Revenues	605	7,305	-		7,910
Operating costs and expenses:					
Cost of goods sold – service	220	3,701	-	4B	3,921
Cost of goods sold - product	1,484	-	-		1,484
Research and development	3,994	-	-		3,994
Selling, general and administrative	3,869	6,317	66	7A 4D	10,252
Impairment of goodwill	-	2,873	-		2,873
Merger costs	-	117	-		117
Total operating costs and expenses	9,567	13,008	66		22,641
Loss from operations	(8,962)	(5,703)	(66)		(14,731)
Other (expense)/income:					
Interest expense	(12)	(1,437)	53	7C	(1,396)
Interest income	18	108	-		126
Change in fair value of acquisition note payable	-	4	-		4
Change in fair value of other derivatives	-	86	-		86
Change in fair value of warrant liability payable	-	70	-		70
Change in fair value of siParadigm Earn-Out	-	(935)	-		(935)
Change in fair value of Excess Consideration Note	-	93	-		93
Gain on troubled debt restructuring	-	258	-		258
Other income (expense)	-	59	-		59
Total other (expense)/income	6	(1,694)	53		(1,635)
Loss from continuing operations, before income taxes	(8,956)	(7,397)	(13)		(16,366)
Income tax (expense)/benefit	-	512	-		512
Net (Loss) Income from continuing operations	(8,956)	(6,885)	(13)		(15,854)
Foreign currency translation loss	-	(34)	-		(34)
Net Comprehensive (Loss)/ Income from continuing operations	\$ (8,956)	\$ (6,919)	\$ (13)		\$ (15,888)
Net loss per common share from continuing operations:					
Basic	\$ (3.71)	\$ (3.57)	-		\$ (0.71)
Diluted	\$ (3.71)	\$ (3.57)	-		\$ (0.71)
Weighted average common shares outstanding for continuing operations:					
Basic	2,417	1,928	20,323		22,251
Diluted	2,417	1,928	20,323		22,251

See accompanying notes to the unaudited pro forma condensed combined financial information.

UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2020
(thousands in USD except per share amounts)

	Historical for the nine months ended September 30, 2020		Pro Forma Merger Adjustments		Pro Forma Combined
	StemoniX	Cancer Genetics			
Revenues:					
Service	\$ 414	\$ 4,440	\$ -	4A	\$ 4,854
Product	188	-	-		188
Total Revenues	602	4,440	-		5,042
Operating costs and expenses:					
Cost of goods sold – service	300	2,366	-	4B	2,666
Cost of goods sold - product	560	-	-		560
Research and development	2,469	-	-		2,469
Selling, general and administrative	2,060	5,961	58	7A	8,079
Merger costs	1,042	454	(1,496)	7B	-
Total operating costs and expenses	6,431	8,781	(1,438)		13,774
Loss from Operations	(5,829)	(4,341)	1,438		(8,732)
Other income (expense):					
Interest expense	(247)	(283)	155	7C	(246)
			129	7D	
Interest income	-	4	-		4
Change in fair value of acquisition note payable	-	4	-		4
Change in fair value of share settlement obligation derivative liability	(220)	-	220	7E	-
Change in fair value of warrant liability payable	-	133	-		133
Change in fair value of siParadigm Earn-Out	-	(66)	-		(66)
Other income (expense)	-	251	-		251
Total other expenses	(467)	43	504		80
Loss from continuing operations, before income taxes	(6,296)	(4,298)	1,942		(8,652)
Income tax (expense)/benefit	-	(8)	-		(8)
Net (Loss) Income from continuing operations	(6,296)	(4,306)	1,942		(8,660)
Foreign currency translation loss	-	(82)	-		(82)
Net Comprehensive (Loss)/ Income from continuing operations	\$ (6,296)	\$ (4,388)	\$ 1,942		\$ (8,742)
Net loss per common share from continuing operations:					
Basic	\$ (2.54)	\$ (1.96)	-		\$ (0.39)
Diluted	\$ (2.54)	\$ (1.96)	-		\$ (0.39)
Weighted average common shares outstanding from continuing operations:					
Basic	2,476	2,193	20,236		22,429
Diluted	2,476	2,193	20,236		22,429

See accompanying notes to the unaudited pro forma condensed combined financial information.

NOTES TO UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION
(thousands in USD)

1. Description of the Merger

On August 21, 2020, CGI, StemoniX and Merger Sub entered into the Merger Agreement. Pursuant to the terms of the Merger Agreement, Merger Sub will be merged with and into StemoniX, with StemoniX surviving the merger as a wholly owned subsidiary of CGI. For financial reporting and accounting purposes, StemoniX will be the acquirer of CGI upon completion of the merger.

In consideration for the merger, assuming 4,085,303 shares of common stock of CGI are outstanding immediately prior to the closing of the merger (prior to the pre-closing issuance of an assumed 3,861,004 shares of CGI common stock in the contemplated Private Placement), shares of StemoniX common stock (after the conversion to StemoniX Common Stock of all preferred stock and convertible notes), in-the-money options and in-the-money warrants issued and outstanding immediately prior to the effective time shall be converted into an aggregate of 14,484,256 shares of common stock (or options to purchase shares of common stock) of CGI. The Merger Agreement provides for net cash targets of \$2,000 for CGI and \$500 for StemoniX. CGI pro forma financial information is prepared under the assumption that neither CGI nor StemoniX will fall short of its respective net cash target by more than \$250 because otherwise the percentage ownership split may vary and the number of shares issued to StemoniX security holders would change. Furthermore, certain assumptions related to financing arrangements and the settlement of certain obligations with third parties that have yet to be effectuated have been assumed. Only transactions and activity that were deemed factually supportable under Article 11 of Regulation S-X of the Securities Act of 1933 ("Article 11") have been reflected in preparation of these pro forma financial statements, which may cause pro forma cash and other balances to differ materially from the expected amounts at merger close.

As a result of the merger, the holders of equity interests of StemoniX as of immediately prior to the merger effective date will collectively own approximately 78% of the outstanding shares of the common stock of the combined company, and the holders of CGI common stock as of immediately prior to the effective time will collectively own approximately 22% of the outstanding shares of the common stock of the combined company (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) pursuant to the Merger Agreement, but prior to the Private Placement, which transaction will dilute all holders proportionately.

2. Basis of Presentation

The unaudited pro forma condensed combined financial information is prepared in accordance with Article 11 of SEC Regulation S-X. The historical financial information has been adjusted in the accompanying unaudited pro forma condensed combined financial information to give effect to unaudited pro forma events that are:

- directly attributable to the merger;
- factually supportable; and
- with respect to the unaudited pro forma condensed combined statement of operations, expected to have a continuing impact on the results of operations of the combined company.

The pro forma financial information contemplates certain financing transactions by both CGI and StemoniX prior to the merger in order to meet the net cash targets defined in the Merger Agreement to meet the targeted ownership structure of 22% and 78%, respectively, and also the issuance of securities of CGI in a pre-closing private placement transaction for net proceeds of \$10,000 as required per the Merger Agreement.

The merger will be treated as a business combination for accounting purposes, with StemoniX as the deemed accounting acquirer and CGI as the deemed accounting acquiree. Therefore, the historical basis of StemoniX's assets and liabilities will not be remeasured as a result of the merger. In identifying StemoniX as the acquiring entity, the companies considered the structure of the merger, relative outstanding share ownership at closing and the composition of the combined company's board of directors and senior management.

The unaudited pro forma condensed combined financial information was prepared using the acquisition method of accounting in accordance with ASC 805, which requires, among other things, that assets acquired and liabilities assumed in a business combination be recognized at their fair values as of the acquisition date. The acquisition method of accounting uses the fair value concepts defined in ASC Topic 820, "Fair Value Measurement" ("ASC 820"). Fair value is defined in ASC 820 as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Market participants are assumed to be buyers or sellers in the most advantageous market for the asset or liability. Fair value measurement for an asset assumes the highest and best use by these market participants.

Fair value measurements can be highly subjective and it is possible the application of reasonable judgment could develop different assumptions resulting in a range of alternative estimates using the same facts and circumstances.

Fair value estimates were determined based on preliminary discussions between StemoniX and CGI management, and a preliminary valuation of CGI's assets and liabilities using September 30, 2020 as the measurement date. The allocation of the aggregate merger consideration used in the preliminary unaudited pro forma condensed combined financial information is based on preliminary estimates. The estimates and assumptions are subject to change as of the effective time of the merger. The final determination of the allocation of the aggregate merger consideration will be based on the actual tangible and intangible assets and the liabilities of CGI at the effective time of the merger. Refer to Note 5 for additional information.

For pro forma purposes, the valuation of consideration transferred is based on, among other things, the number of CGI common shares outstanding and price per share as of November 30, 2020. Refer to Note 5 for additional information. This is used for pro forma purposes only. The consideration transferred will ultimately be based on the number of CGI common shares outstanding and price per share as of immediately prior to the effective time of the merger, which could materially change from the assumptions included in this pro forma financial information, noting the relative share ownership of StemoniX and CGI will be 78% and 22%, respectively. Additionally, for the purposes of this pro forma financial information, the consideration transferred ascribes no value to outstanding out-of-the-money CGI's Warrants and CGI's Options not be converted to equity based on value of the exercise price of the instruments as compared to the market price of CGI's shares.

The unaudited pro forma condensed combined balance sheet data gives effect to the merger as if it had occurred on September 30, 2020. The unaudited pro forma condensed combined statements of operations data gives effect to the merger as if it had occurred on January 1, 2019. The pro forma financial information also excludes the discontinued operations reported in CGI historical condensed consolidated statements of operations and other comprehensive loss for nine months ended September 30, 2020 and for the fiscal year ended December 31, 2019.

The unaudited pro forma condensed combined financial information is presented solely for informational purposes and is not necessarily indicative of the combined results of operations or financial position that might have been achieved for the periods or dates indicated, nor is it necessarily indicative of the future results of the combined company. The unaudited pro forma condensed combined financial information has not been adjusted to give effect to certain expected financial benefits of the merger, such as tax savings, cost synergies or revenue synergies, or the anticipated costs to achieve these benefits, including the cost of integration activities. The unaudited pro forma condensed combined financial information does not reflect possible adjustments related to restructuring or integration activities that have yet to be determined or transaction or other costs following the combination that are not expected to have a continuing impact on the business of the combined company. Further, one-time transaction-related expenses anticipated to be incurred prior to, or concurrent with, the closing of the merger are not included in the unaudited pro forma combined statement of operations. However, the impact of such transaction expenses is reflected in the unaudited pro forma combined balance sheet as a decrease to accumulated deficit and additional paid-in capital and as an increase to accrued expenses.

3. Accounting Policies

The unaudited pro forma condensed combined financial information has been compiled in a manner consistent with the accounting policies of StemoniX. Following the merger, the combined company will conduct a review of accounting policies of CGI in an effort to determine if differences in accounting policies require further reclassification of results of operations or reclassification of assets or liabilities to conform to StemoniX's accounting policies and classifications. As a result of that review, the combined company may identify differences among the accounting policies of the companies that, when conformed, could have a material impact on the unaudited pro forma condensed combined financial information.

4. CGI Reclassifications

Certain financial information of CGI has been reclassified to conform to the historical presentation in StemoniX's financial statements as set forth below:

A. Product Revenue and Service Revenue

Revenue is broken down by product revenue and service revenue to conform to StemoniX's statement of operations presentation. As CGI is a service company, all of revenue is classified as service revenue. CGI's service revenue was \$4,440 and \$7,305 for the nine months ended September 30, 2020 and the year ended December 31, 2019, respectively.

B. Cost of Goods Sold – Product and Cost of Goods Sold – Service

Cost of goods sold is broken down by product and service to conform to StemoniX's statement of operations presentation. Cost of goods sold reflected in CGI's consolidated statements of operations are classified as service cost of goods sold. CGI's cost of goods sold - service was \$2,366 and \$3,701 for the nine months ended September 30, 2020 and for the year ended December 31, 2019, respectively.

C. Accrued Expenses

CGI's accrued expenses of \$1,327 were reclassified from Accounts payable and accrued to Accrued expenses to conform to StemoniX's balance sheet presentation.

D. Selling, general and administrative

General and administrative expenses and Sales and marketing expenses were reclassified from their original classification to conform to StemoniX's statements of operations presentation. CGI's general and administrative expenses were \$4,982 and \$5,171 for the nine months ended September 30, 2020 and the year ended December 31, 2019, respectively. CGI's sales and marketing expenses were \$979 and \$1,146 for the nine months ended September 30, 2020 and the year ended December 31, 2019, respectively.

5. Reverse acquisition and purchase price allocation

Fair Value of Total Estimated Consideration Transferred

The fair value of preliminary purchase consideration expected to be transferred on the closing date includes the value of the estimated number of shares of the combined company to be owned by CGI shareholders at closing of the merger. The value of CGI's warrants and stock options is assumed at the intrinsic value. The fair value per share of CGI's common stock was assumed for pro forma purposes to be \$2.59 per share. This is the closing price of CGI common stock on November 30, 2020. Although changes in the stock price of CGI Common Stock will impact the fair value of total estimated purchase consideration transferred, they will not impact the initial 22%/78% split specified in the Merger Agreement.

Purchase consideration (thousands in USD except share and per share amounts)	Amounts
Number of CGI common shares outstanding as of September 30, 2020	2,507,155
CGI common stock issued for CGI common stock warrants and other, net	9,966
Additional shares issued in \$3,450 (\$2,891 net proceeds) CGI financing	1,568,182
Total shares of CGI common stock assumed to be outstanding as of closing of the merger	4,085,303
CGI share price as of November 30, 2020	\$ 2.59
Preliminary estimate of fair value of common shares	\$ 10,581
Preliminary estimate of fair value of share-based instruments	\$ -
Fair value of total estimated purchase consideration transferred	\$ 10,581

Purchase Price Allocation

The following is a preliminary estimate of the allocation of the purchase price to acquired identifiable assets and assumed liabilities, which includes preliminary purchase accounting adjustments to reflect the fair value of intangible assets acquired at the time of the merger:

	Amounts
Book value of CGI net assets acquired as of September 30, 2020	\$ 4,805
Legacy CGI goodwill not acquired in the merger	(3,090)
Legacy CGI siParadigm earn-out provision assets and advance liabilities not included in the net assets transferred	(141)
Legacy CGI \$3,450 (\$2,891 net proceeds) financing not included in the net assets transferred	2,891
Book value of CGI net assets acquired as of September 30, 2020	<u>4,465</u>
Adjustments to reflect preliminary fair value of assets acquired and liabilities assumed:	
Intangibles, net (see Note 6B)	2,637
Fair value of CGI net assets acquired as of September 30, 2020	<u>7,102</u>
Goodwill	<u>3,479</u>
Fair value of total estimated consideration transferred	<u>\$ 10,581</u>
	Amounts
Remove legacy CGI goodwill not acquired in the merger	(3,090)
Record goodwill from the merger	3,479
Net pro forma adjustment to goodwill	<u>\$ 389</u>

The intangibles identified relate to customer lists and tradename. The valuation is internally developed and these are valued on a preliminary basis. Changes in fair values could result in material adjustments in the purchase price allocation and resulting goodwill.

The preliminary estimated fair value of intangibles of \$5,200, which is an increase of \$2,637 from CGI's book value of intangible assets prior to the merger. The acquired identified intangible assets are expected to be comprised of the following:

(thousands in USD)	Estimated Remaining Useful Life	CGI Historical Carrying Value	Estimated Fair Value	Incremental Amortization Expense for the Nine Month Ended September 30, 2020	Incremental Amortization Expense for the Year Ended December 31, 2019
Patents	-	\$ 311	\$ -	\$ (98)	\$ (148)
Customer List	10 years	1,915	4,000	102	137
Tradename	10 years	337	1,200	54	77
Total		<u>\$ 2,563</u>	<u>\$ 5,200</u>	<u>\$ 58</u>	<u>\$ 66</u>

The fair value estimate for all identifiable intangible assets is preliminary and is based on assumptions that market participants would use in pricing an asset, based on the most advantageous market for the asset (i.e., its highest and best use). This preliminary fair value estimate could include assets that are not intended to be used, may be sold, or are intended to be used in a manner other than their best use. The final determination of fair value of intangible assets, as well as estimated useful lives, remains subject to change. The finalization may have a material impact on the valuation of intangible assets and the purchase price allocation, which is expected to be finalized subsequent to the merger. A 10% change in the valuation of intangible assets would cause a corresponding increase or decrease to goodwill of approximately \$520 at the merger date and a corresponding increase or decrease to amortization expense of approximately \$39 and \$52, respectively, the nine months ended September 30, 2020 and for the year ended December 31, 2019, assuming an overall weighted-average useful life of 10 years.

The final purchase consideration will be based on the CGI closing price per share immediately prior to the effective time of the merger. Accordingly, the purchase consideration and goodwill may change significantly if the trading price of CGI's common stock fluctuates materially from the November 30, 2020 value of \$2.59 per share. A 10% increase or decrease in CGI's share price would result in the following changes into purchase consideration and goodwill:

Share price sensitivity analysis (thousands in USD)	10% increase in CGI share price	10% decrease in CGI share price
Preliminary fair value of purchase consideration	\$ 11,639	\$ 9,523
Preliminary goodwill from the merger	4,537	2,421

6. Unaudited Pro Forma Condensed Combined Balance Sheet Adjustments

The following provides explanations of the various adjustments to the unaudited pro forma condensed combined balance sheet:

- A. Represents adjustment related to increase historical CGI goodwill of \$389 determined by the net acquired identifiable assets and assumed liabilities. Refer to Note 5 on discussion of this reverse merger and purchase price allocation.
- B. Represent an increase of \$2,637 over CGI historical book value of intangible assets recorded in conjunction with the purchase price allocation arising from the merger. Refer to Note 5 on discussion of this reverse merger and purchase price allocation.
- C. Represents \$3,767 of transaction costs expected to be incurred in connection with the merger, of which approximately \$1,496 was incurred or accrued for on the balance sheet as of September 30, 2020. The remaining transaction costs of \$2,271 were not yet accrued or incurred and reflected in the balance sheet as of September 30, 2020 and are recorded as an increase to accrued expenses. Approximately \$93 of the amount relates to the repayment of Angel Tax Credits and is reflected as a reduction to additional paid-in capital. The remaining amount of \$2,178 is reflected as an increase to accumulated deficit.

- D. Represents an adjustment related to StemoniX’s loan agreement with the Minnesota Department of Employment and Economic development. Triggered by a transfer of substantial common stock ownership interest, this loan becomes payable in full, as well as a 30% premium on the original principal. This loan has an outstanding balance of \$83 and carries a zero-interest rate. The \$24 repayment premium is reflected as an increase in accumulated deficit and the total repayment of \$107 is reflected as an increase to current notes payable.
- E. Represents the net proceeds from the post September 30, 2020 CGI financing of \$2,891 (\$3,450 gross proceeds) in exchange for 1,568,182 shares of common stock (\$0.0001 par value per share) at a price of \$2.20 per share. This financing is part of CGI’s plan to meet its closing net cash representation in the Merger Agreement.
- F. Represents the net proceeds from CGI’s assumed private placement of \$10,000 in exchange for 3,861,004 shares of common stock (\$0.0001 par value per share) at an assumed price of \$2.59 per share (the closing price of CGI common stock on Nasdaq on November 30, 2020). Pursuant to the Merger Agreement, CGI must consummate a private placement of CGI’s securities of up to \$10,000 no later than simultaneous with the closing as a condition to close the Merger Agreement.
- G. Represents the net proceeds from an assumed post September 30, 2020 StemoniX issuance of \$1,387 convertible notes. This financing is part of StemoniX’s plan to meet its closing net cash representation in the Merger Agreement.
- H. Represents the conversion of StemoniX’s preferred shares of \$29,088 prior to the closing of the reverse merger, causing a conversion of the preferred shares into common stock. The preferred shares are required to be converted prior to the closing. An aggregate of \$1 of this transaction is allocated to common stock, \$27,517 to additional paid-in capital and \$1,569 to accumulated deficit.
- I. Represents the conversion of StemoniX’s \$8,593 convertible notes and \$129 accrued interest prior to the closing of the reverse merger, causing a conversion of the convertible notes into common stock. The convertible notes are required to be converted prior to the closing. Together with the conversion, debt discount of (\$1,005) and an embedded derivative (“Share Settlement Obligation”) of \$1,340 results in a net gain on extinguishment of \$335 and are derecognized through accumulated deficit.
- J. Represents the elimination of CGI common stock, paid-in capital, accumulated deficits and accumulated other comprehensive income, as well as the adjustments to reflect the capital structure of the combined company. See the explanation of the adjustments:
- i. Adjustments to common stock: an increase in common stock of \$2 represents the adjustment to the aggregate historical par value of StemoniX and CGI of \$0, to reflect 22,430,563 shares outstanding at a total par value of \$2 (\$0.0001 par value per share) calculated as follows:

(thousands in USD except share and per share amounts)	Amount
Shares of CGI common stock outstanding on September 30, 2020	2,507,155
CGI common stock issued for CGI common stock warrants, other, net	9,996
CGI common stock to be issued to StemoniX as of closing of Merger	14,484,256
CGI common stock issued for projected private placement transaction	3,861,004
CGI common stock issued for projected \$3,450 (\$2,891 net proceeds) financing	1,568,182
Total shares of CGI common stock outstanding as of merger close	22,430,563
Par value per common share	\$ 0.0001
Common stock total par value at merger	\$ 2
Exclusion of other common stock pro forma adjustments	-
Total pro forma merger adjustments	\$ 2

ii. Adjustments to paid-in capital as follows:

(thousands in USD)	Amount
Merger consideration	\$ 10,581
Elimination of CGI historical additional paid-in capital	(173,517)
Adjustments related to purchase price consideration	(3,026)
Adjustments related to CGI \$3,450 (\$2,891 net proceeds) financing	(2,891)
Par value common stock	(2)
Total pro forma merger adjustments	<u>\$ (168,855)</u>

iii. Adjustments to accumulated deficit as follows:

(thousands in USD)	Amount
Pro forma merger adjustments:	
Elimination of historical CGI accumulated deficit	\$ 168,656
Elimination of historical CGI siParadigm earn-out provision assets and advance liabilities	141
Total pro forma merger adjustments	<u>\$ 168,797</u>

iv. Adjustments to remove CGI's accumulated other comprehensive loss

(thousands in USD)	Amount
Pro forma merger adjustments:	
Elimination of historical CGI accumulated other comprehensive loss	\$ 56
Total pro forma merger adjustments	<u>\$ 56</u>

7. Unaudited Pro Forma Statement of Operations Adjustments

The following provides explanations of the various adjustments to the unaudited pro forma condensed combined statement of operations:

- A. Represents incremental amortization of \$58 and \$66 for the nine months ended September 30, 2020 and for the year ended December 31, 2019, respectively, related to the fair value adjustments to intangible assets discussed above in Note 5. The amortization expense is recorded in General and administrative expenses based on StemoniX's accounting policy.
 - B. Represents the removal of \$1,496 for the nine months ended September 30, 2020 incurred by the combined companies in conjunction with this reverse merger for transaction related fees and expenses that will not recur on an ongoing basis.
 - C. Represents the elimination of the historical interest expense of \$155 and \$53 for the nine months ended September 30, 2020 and for the year ended December 31, 2019, respectively, related to CGI's return of \$848 of principal amount and \$111 of interest from unsecured promissory note for issuance of 246,272 shares to Atlas Sciences, LLC, which occurred in the third quarter of 2020. This conversion is part of CGI's plan to meet its closing net cash representation in the Merger Agreement.
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- D. Represents the elimination of historical interest expense of \$129 for the nine months ended September 30, 2020 incurred by StemoniX related to the convertible notes issued in May through September 2020.
- E. Represents the elimination of historical changes of \$220 in fair value of an embedded derivative (“Share Settlement Obligation”) with the convertible notes for the nine months ended September 30, 2020.

8. Loss per Share

The unaudited pro forma weighted average number of basic and diluted shares outstanding for the nine months ended September 30, 2020 and for the year ended December 31, 2019 is calculated as follows:

(thousands in USD except share and per share amounts)	For the Nine months ended September 30, 2020	For the Year ended December 31, 2019
Weighted average CGI shares outstanding as of September 30, 2020 and December 31, 2019 – basic	2,193,000	1,928,000
Adjusted for:		
StemoniX weighted average shares outstanding as if the merger occurred on January 1, 2019	14,484,256	14,484,256
CGI additional shares issued for Atlas debt conversion	312,821	399,557
CGI additional shares issued for \$3,450 (\$2,891 net proceeds) financing	1,568,182	1,568,182
CGI common stock issued for CGI common stock warrants and other, net	9,966	9,966
CGI additional shares issued for \$10,000 private placement	3,861,004	3,861,004
Pro forma adjusted weighted average shares outstanding as of September 30, 2020 and December 31, 2019 – basic and dilutive	<u>22,429,229</u>	<u>22,250,965</u>
Pro forma net loss attributable to common shareholders – basic and dilutive	<u>\$ (8,660)</u>	<u>\$ (15,854)</u>
Pro forma net loss per common share – basic and dilutive	<u>\$ (0.39)</u>	<u>\$ (0.71)</u>

The unaudited pro forma weighted average number of basic shares outstanding is calculated by adding the number of combined company shares expected to be issued to the stockholders of StemoniX after giving effect to the pre-closing StemoniX conversions and the historical weighted average number of basic shares of CGI, which will remain outstanding as shares in the combined company on a 1:1 basis. The pro forma adjusted weighted average shares outstanding in thousands are 22,429 and 22,251 shares for the nine-months ended September 30, 2020 and for the year ended December 31, 2019, respectively.