

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

FORM 10-Q

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

For the quarterly period ended September 30, 2013

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 001-33675

Venaxis, Inc.

(Exact name of registrant as specified in its charter)

Colorado

(State or other jurisdiction of  
incorporation or organization)

84-1553387

(I.R.S. Employer Identification No.)

1585 South Perry Street, Castle Rock, Colorado 80104

(Address of principal executive offices) (Zip Code)

(303) 794-2000

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

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

The number of shares of no par value common stock outstanding as of November 5, 2013 was 21,454,380.

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VENAXIS, INC.

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**PART I — FINANCIAL INFORMATION**

**Item I. Condensed Financial Statements**

**Venaxis, Inc.  
Balance Sheets**

	<b>September 30, 2013 (Unaudited)</b>	<b>December 31, 2012</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 4,355,340	\$ 10,977,974
Short-term investments (Note 1)	12,932,567	1,162,904
Accounts receivable - trade (Note 8)	56,068	—
Prepaid expenses and other current assets	503,034	387,480
<b>Total current assets</b>	<b>17,847,009</b>	<b>12,528,358</b>
Property and equipment, net (Note 2)	2,319,067	2,484,539
Other long term assets, net (Note 3)	1,615,811	1,601,894
<b>Total assets</b>	<b>\$ 21,781,887</b>	<b>\$ 16,614,791</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 870,356	\$ 613,925
Accrued compensation	43,543	452,878
Accrued expenses	972,245	642,055
Notes and other obligations, current portion (Note 4)	421,869	2,290,292
Deferred revenue, current portion (Note 7)	92,868	79,803
<b>Total current liabilities</b>	<b>2,400,881</b>	<b>4,078,953</b>
Notes and other obligations, less current portion (Note 4)	2,187,186	763,132
Deferred revenue, less current portion (Note 7)	1,324,514	1,081,706
<b>Total liabilities</b>	<b>5,912,581</b>	<b>5,923,791</b>
Commitments and contingencies (Notes 7 and 8)		
Stockholders' equity (Notes 5 and 6):		
Common stock, no par value, 60,000,000 shares authorized; 21,454,380 and 9,954,380 shares issued and outstanding	99,121,317	84,924,133
Accumulated deficit	(83,252,011)	(74,233,133)
<b>Total stockholders' equity</b>	<b>15,869,306</b>	<b>10,691,000</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 21,781,887</b>	<b>\$ 16,614,791</b>

See Accompanying Notes to Unaudited Condensed Financial Statements

**Venaxis, Inc.**  
**Statements of Operations**  
**Three and Nine months Ended September 30**  
**(Unaudited)**

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
Sales (Note 8)	\$ 56,068	\$ 6,240	\$ 56,068	\$ 40,756
Cost of sales	21,230	—	21,230	196
Gross profit	34,838	6,240	34,838	40,560
Other revenue - fee	21,708	4,490	61,612	4,490
Operating expenses:				
Selling, general and administrative	1,322,976	1,346,391	4,105,261	3,944,780
Research and development	1,806,373	1,065,967	5,018,868	2,623,195
Total operating expenses	3,129,349	2,412,358	9,124,129	6,567,975
Operating loss	(3,072,803)	(2,401,628)	(9,027,679)	(6,522,925)
Other income (expense), net (primarily interest)	713	(58,459)	8,801	(185,192)
Net loss	\$ (3,072,090)	\$ (2,460,087)	\$ (9,018,878)	\$ (6,708,117)
Basic and diluted net loss per share (Note 1)	\$ (0.14)	\$ (0.32)	\$ (0.58)	\$ (1.78)
Basic and diluted weighted average number of shares outstanding (Note 1)	21,454,380	7,716,480	15,430,570	3,772,228

See Accompanying Notes to Unaudited Condensed Financial Statements

**Venaxis, Inc.**  
**Statements of Cash Flows**  
**Nine months Ended September 30**  
**(Unaudited)**

	<b>2013</b>	<b>2012</b>
<b>Cash flows from operating activities:</b>		
Net loss	\$ (9,018,878)	\$ (6,708,117)
Adjustments to reconcile net loss to net cash used in operating activities:		
Stock-based compensation for services	1,227,597	706,135
Depreciation and amortization	251,900	334,715
Impairment charges	2,951	44,554
Amortization of license fees	(61,612)	(4,490)
Change in:		
Accounts receivable - trade	(56,068)	31,778
Prepaid expenses and other current assets	229,135	330,318
Accounts payable	256,431	60,317
Accrued compensation	(409,335)	276,062
Accrued expenses	330,190	290,482
Deferred revenue	317,485	1,036,220
<b>Net cash used in operating activities</b>	<b>(6,930,204)</b>	<b>(3,602,026)</b>
<b>Cash flows from investing activities:</b>		
Purchases of short-term investments	(17,759,448)	(598,775)
Sales of short-term investments	5,989,785	1,212,733
Purchases of property and equipment	(24,241)	(42,024)
Purchases of patent and other assets	(79,055)	(59,869)
<b>Net cash (used in) provided by investing activities</b>	<b>(11,872,959)</b>	<b>512,065</b>
<b>Cash flows from financing activities:</b>		
Repayment of notes payable and other obligations	(789,058)	(979,905)
Net proceeds from issuance of common stock	12,969,587	10,938,512
<b>Net cash provided by financing activities</b>	<b>12,180,529</b>	<b>9,958,607</b>
<b>Net (decrease) increase in cash and cash equivalents</b>	<b>(6,622,634)</b>	<b>6,868,646</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>10,977,974</b>	<b>2,968,104</b>
<b>Cash and cash equivalents at end of period</b>	<b>\$ 4,355,340</b>	<b>\$ 9,836,750</b>
<b>Supplemental disclosure of cash flow information:</b>		
Cash paid during the period for interest	\$ 110,519	\$ 187,885
<b>Schedule of non-cash investing and financing transactions:</b>		
Acquisitions of current assets for installment obligations	\$ 344,689	\$ 480,635

See Accompanying Notes to Unaudited Condensed Financial Statements

**Venaxis, Inc.**  
**Notes to Condensed Financial Statements**  
**(Unaudited)**

**INTERIM FINANCIAL STATEMENTS**

The accompanying financial statements of Venaxis, Inc. (the “Company,” “we,” or “Venaxis”) have been prepared in accordance with the instructions to quarterly reports on Form 10-Q. In the opinion of management, all adjustments (which include only normal recurring adjustments) necessary to present fairly the financial position, results of operations and changes in financial position at September 30, 2013 and for all periods presented have been made. Certain information and footnote data necessary for fair presentation of financial position and results of operations in conformity with accounting principles generally accepted in the United States of America have been condensed or omitted. It is therefore suggested that these financial statements be read in conjunction with the summary of significant accounting policies and notes to financial statements included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2012. The results of operations for the period ended September 30, 2013 are not necessarily an indication of operating results for the full year.

**Management’s plans and basis of presentation:**

The Company has experienced recurring losses and negative cash flows from operations. At September 30, 2013, the Company had approximate balances of cash and liquid investments of \$17,288,000, working capital of \$15,446,000, stockholders’ equity of \$15,869,000 and an accumulated deficit of \$83,252,000. To date, the Company has in large part relied on equity financing to fund its operations. The Company expects to continue to incur losses from operations for the near-term and these losses could be significant as product development, clinical and regulatory activities, consulting expenses and other product development related expenses are incurred. In May 2013, the Company completed a public offering (Note 5) and refinanced its commercial bank mortgage obligation (Note 4). Following the May 2013 public offering, the Company believes that its current working capital position will be sufficient to meet its estimated cash needs for the remainder of 2013 and into 2014. If the Company is not able to obtain additional capital when needed, the Company would potentially be required to reduce the scope of its research and development activities or cease operations. The Company is closely monitoring its cash balances, cash needs and expense levels.

Management’s strategic plans include the following:

- continuing to advance development of the Company’s principal product, *APPY1*;
- continuing to explore prospective partnering or licensing opportunities with complementary opportunities and technologies; and
- continuing to monitor and implement cost control initiatives to conserve cash.

**Note 1. Significant accounting policies:**

**Cash, cash equivalents and investments:**

The Company considers all highly liquid investments with an original maturity of three months or less at the date of acquisition to be cash equivalents. From time to time, the Company’s cash account balances exceed the balances as covered by the Federal Deposit Insurance System. The Company has never suffered a loss due to such excess balances.

The Company invests excess cash from time to time in highly-liquid debt and equity investments of highly-rated entities which are classified as trading securities. The purpose of the investments is to fund research and development, product development, United States Food and Drug Administration (“FDA”) clearance-related activities and general corporate purposes. Such amounts are recorded at market values using Level 1 inputs in determining fair value and are classified as current, as the Company does not intend to hold the investments beyond twelve months. Investment securities classified as trading are those securities that are bought and held principally for the purpose of selling them in the near term, with the objective of preserving principal and generating profits. These securities are reported at fair value with unrealized gains and losses reported as an element of other (expense) income in current period earnings. The Company’s Board of Directors has approved an investment policy covering the investment parameters to be followed with the primary goals being the safety of principal amounts and maintaining liquidity of the fund. The policy provides for minimum investment rating requirements as well as limitations on investment duration and concentrations. Based upon market conditions, the investment guidelines have been tightened to increase the minimum acceptable investment ratings required for investments and shorten the maximum investment term. As of September 30, 2013, 16% of the investment portfolio was in cash and cash equivalents, which is presented as such on the accompanying balance sheet, and the remaining funds were invested in short-term marketable securities with none individually representing more than 10% of the portfolio and none with maturities past June 2014. To date, the Company’s cumulative realized market loss from the investments has not been significant. For the nine months ended September 30, 2013, there was approximately \$115,000 in unrealized loss, \$53,000 realized loss, and \$13,000 in management fees. For the nine months ended September 30, 2012, there was approximately \$1,329 in unrealized income, \$82 realized loss, and \$2,576 in management fees.

**Fair value of financial instruments:**

The Company accounts for financial instruments under Financial Accounting Standards Board (FASB) Accounting Standards Codification Topic (ASC) 820, *Fair Value Measurements*. This statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. To increase consistency and comparability in fair value measurements, ASC 820 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three levels as follows:

Level 1— quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 — observable inputs other than Level 1, quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets and liabilities in markets that are not active, and model-derived prices whose inputs are observable or whose significant value drivers are observable; and

Level 3 — assets and liabilities whose significant value drivers are unobservable.

Observable inputs are based on market data obtained from independent sources, while unobservable inputs are based on the Company's market assumptions. Unobservable inputs require significant management judgment or estimation. In some cases, the inputs used to measure an asset or liability may fall into different levels of the fair value hierarchy. In those instances, the fair value measurement is required to be classified using the lowest level of input that is significant to the fair value measurement. Such determination requires significant management judgment. There were no financial assets or liabilities measured at fair value, with the exception of cash, cash equivalents and short-term investments as of September 30, 2013 and December 31, 2012.

The carrying amounts of the Company's financial instruments (other than cash, cash equivalents and short-term investments as discussed above) approximate fair value because of their variable interest rates and/or short maturities combined with the recent historical interest rate levels.

**Recently issued and adopted accounting pronouncements:**

The Company has evaluated all recently issued accounting pronouncements and believes such pronouncements do not have a material effect on the Company's financial statements.

**Income (loss) per share:**

ASC 260, *Earnings Per Share*, requires dual presentation of basic and diluted earnings per share (EPS) with a reconciliation of the numerator and denominator of the basic EPS computation to the numerator and denominator of the diluted EPS computation. Basic EPS excludes dilution. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the entity.

Basic net earnings (loss) per share includes no dilution and is computed by dividing net earnings (loss) available to shareholders by the weighted average number of common shares outstanding for the period. The increase in the weighted average number of common shares outstanding in the period ended September 30, 2013, as compared to the same 2012 period resulted from common shares issued in the 2013 public offering. Diluted net earnings (loss) per share reflect the potential dilution of securities that could share in the Company's earnings (loss). The effect of securities that could potentially dilute basic earnings in the future were not included in the current computations of diluted net earnings (loss) per share, because to do so would have been anti-dilutive. Accordingly, the weighted average shares outstanding have not been adjusted for dilutive shares. Outstanding stock options and warrants are not considered in the calculation, as the impact of the potential common shares (totaling approximately 5,843,000 shares and 867,000 shares as of September 30, 2013 and 2012, respectively) would be to decrease the net loss per share.

Following shareholder approval at May 22, 2012 annual meeting, the Board of Directors authorized a reverse stock split of the Company's common stock at a ratio of one-for-six, whereby each six shares of common stock were combined into one share of common stock (the "Reverse Stock Split"). The Reverse Stock Split was implemented and effective on June 20, 2012. All historical references to shares and share amounts in this report have been retroactively revised to reflect the Reverse Stock Split.

**Note 2. Property and equipment:**

Property and equipment consisted of the following:

	<b>September 30, 2013 (Unaudited)</b>	<b>December 31, 2012</b>
Land and improvements	\$ 1,107,508	\$ 1,107,508
Building	2,589,231	2,589,231
Building improvements	253,526	251,049
Laboratory equipment	1,220,735	1,211,418
Office and computer equipment	412,139	403,692
	<u>5,583,139</u>	<u>5,562,898</u>
Less accumulated depreciation	<u>3,264,072</u>	<u>3,078,359</u>
	<u>\$ 2,319,067</u>	<u>\$ 2,484,539</u>

Depreciation expense totaled approximately \$59,000 and \$91,000, and \$190,000 and \$277,000, for the three and nine month periods ended September 30, 2013 and 2012, respectively.

**Note 3. Other long-term assets:**

Other long-term assets consisted of the following:

	<b>September 30, 2013 (Unaudited)</b>	<b>December 31, 2012</b>
Patents, trademarks and applications, net of accumulated amortization of \$402,207 and \$345,692	\$ 1,218,028	\$ 1,210,698
Goodwill	387,239	387,239
Other	10,544	3,957
	<u>\$ 1,615,811</u>	<u>\$ 1,601,894</u>

The Company capitalizes legal costs and filing fees associated with obtaining patents on its new discoveries. Once the patents have been issued, the Company amortizes these costs over the shorter of the legal life of the patent or its estimated economic life using the straight-line method. Based upon the current status of the above intangible assets, the aggregate amortization expense is estimated to be approximately \$76,000 for each of the next five fiscal years. The Company tests intangible assets with finite lives upon significant changes in the Company's business environment. The testing resulted in approximately \$0 and \$3,000 in total patent impairment charges during the three month and the nine month periods ended September 30, 2013, and \$0 and \$45,000 in impairment charges during the three month and nine month periods ended September 30, 2012, respectively.

**Note 4. Notes and Other Obligations:**

Notes payable and other obligations consisted of the following:

	<b>September 30, 2013 (Unaudited)</b>	<b>December 31, 2012</b>
Mortgage notes	\$ 2,332,592	\$ 2,435,073
Termination obligation	—	397,588
Other short-term installment obligations	276,463	220,763
	<u>2,609,055</u>	<u>3,053,424</u>
Less current portion	<u>421,869</u>	<u>2,290,292</u>
	<u>\$ 2,187,186</u>	<u>\$ 763,132</u>



**Mortgage notes:**

The Company has a mortgage facility on its land and building. The mortgage is held by a commercial bank and includes approximately 35% that is guaranteed by the U. S. Small Business Administration (SBA). The loan is collateralized by the real property and the SBA portion is also personally guaranteed by a former officer of the Company. The commercial bank portion of the mortgage was refinanced with the current lender in May 2013. The revised terms include a payment schedule based on a fifteen year amortization, with a balloon maturity at five years. The commercial bank portion has the interest rate fixed at 3.95%, and the SBA portion bears interest at the rate of 5.86%. The commercial bank portion of the loan requires total monthly payments of approximately \$11,700, which includes approximately \$5,200 per month in interest. The SBA portion of the loan requires total monthly payments of approximately \$9,200 through July 2023, which currently includes approximately \$4,100 per month in interest and fees.

**Termination obligation:**

In November 2011, the Company entered into a Termination Agreement with Novartis Animal Health, Inc. (the "Novartis Termination Agreement") to terminate the Novartis License Agreement (Note 7). Under the Novartis Termination Agreement, the termination obligation originally totaled \$1,374,000, which was payable \$150,000 upon signing the Novartis Termination Agreement and in six equal subsequent quarterly installments of \$204,000 each. The Company discounted this obligation for financial reporting purposes, using an assumed interest rate of 7% (which represented the rate management believes it could have borrowed at for similar financings). As of September 30, 2013, the balance had been paid in full.

**Future maturities:**

The Company's total debt obligations require minimum annual principal payments of approximately \$139,000 for the remainder of 2013, \$320,000 in 2014, \$153,000 in 2015, \$159,000 in 2016 and \$1,838,000 thereafter, through the terms of the applicable debt agreements.

**Note 5. Stockholders' equity:**

Upon the completion of the 2013 annual stockholders meeting on June 11, 2013 where such action was approved, the Board of Directors approved an amendment to the Company's Articles of Incorporation to increase the authorized common shares to 60 million from 30 million.

In May 2013, the Company completed a public offering of securities consisting of 11,500,000 shares of common stock at an offering price of \$1.25 per share, generating approximately \$14.4 million in total proceeds. Fees and other expenses totaled approximately \$1,405,000, including a placement fee of 7%. Under the terms of the offering, investors received, for each common share purchased, a warrant to purchase 0.35 of a common share, this resulted in the issuance of warrants to purchase a total of 4,025,000 shares of common stock if all warrants are fully exercised. The exercise price of the warrants is \$1.36 per share; the warrants were exercisable upon issuance and expire in May 2018. Under the terms of the Underwriting Agreement, the underwriter exercised the option to purchase an additional 15% of the offering amount which is included in the above amounts. The purpose of the offering was to raise funds for working capital, new product development and general corporate purposes.

During the nine months ended September 30, 2012, the Company completed a public offering of securities consisting of 6,100,000 shares of common stock at an offering price of \$2.00 per share, generating approximately \$12.2 million in total proceeds. Fees and other expenses totaled \$1,261,000, including a placement fee of 7%. Under the terms of the Underwriting Agreement, the underwriter received warrants to purchase a total of 305,000 shares of common stock. The exercise price of the warrants is \$2.50 per share; the warrants became exercisable in June 2013 and expire in June 2017. The purpose of the offering was to raise funds for working capital, new product development and general corporate purposes.

**Note 6. Stock options and warrants:****Stock options:**

The Company currently provides stock-based compensation to employees, directors and consultants, both under the Company's 2002 Stock Incentive Plan, as amended (the "Plan"), and non-qualified options and warrants issued outside of the Plan. The Company estimates the fair value of the share-based awards on the date of grant using the Black-Scholes option-pricing model (the "Black-Scholes model"). Using the Black-Scholes model, the value of the award that is ultimately expected to vest is recognized over the requisite service period in the statement of operations. Option forfeitures are estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. The Company attributes compensation to expense using the straight-line single option method for all options granted.

The Company's determination of the estimated fair value of share-based payment awards on the date of grant is affected by the following variables and assumptions:

- The grant date exercise price – the closing market price of the Company's common stock on the date of the grant;
- Estimated option term – based on historical experience with existing option holders;
- Estimated dividend rates – based on historical and anticipated dividends over the life of the option;
- Term of the option – based on historical experience, grants have lives of approximately 3-5 years;
- Risk-free interest rates – with maturities that approximate the expected life of the options granted;
- Calculated stock price volatility – calculated over the expected life of the options granted, which is calculated based on the daily closing price of the Company's common stock over a period equal to the expected term of the option; and
- Option exercise behaviors – based on actual and projected employee stock option exercises and forfeitures.

The Company recognized total expenses for stock-based compensation during the periods ended September 30, as follows:

	<b>Three Months Ended</b>		<b>Nine months Ended</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
Stock options to employees and directors	\$ 332,150	\$ 224,187	\$ 1,226,304	\$ 613,276
Stock options to consultants for:				
Investor relations activities	—	—	—	23,598
APPY1 activities	100	30,751	1,293	33,733
Animal health activities	—	—	—	5,752
<b>Total stock-based compensation</b>	<b>\$ 332,250</b>	<b>\$ 254,938</b>	<b>\$ 1,227,597</b>	<b>\$ 676,359</b>

The above expenses are included in the accompanying Statements of Operations for the periods ended September 30, in the following categories:

	<b>Three Months Ended</b>		<b>Nine months Ended</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
Selling, general and administrative expenses	\$ 301,888	\$ 224,187	\$ 1,111,623	\$ 642,626
Research and development expenses	30,362	30,751	115,974	33,733
<b>Total stock-based compensation</b>	<b>\$ 332,250</b>	<b>\$ 254,938</b>	<b>\$ 1,227,597</b>	<b>\$ 676,359</b>

During the nine month periods ended September 30, 2013 and 2012, no options were exercised.

#### Stock incentive plan options:

The Company currently provides stock-based compensation to employees, directors and consultants under the Plan. During the nine months ended September 30, the Company utilized assumptions in the estimation of fair value of stock-based compensation as follows:

	<b>2013</b>	<b>2012</b>
Dividend yield	0%	0%
Expected price volatility	127-128%	121-145%
Risk free interest rate	0.65 to 0.76%	0.60-1.03%
Expected term	5 years	5 years

The Company utilized an estimated forfeiture rate of 15% for each of the nine month periods ended September 30, 2013 and 2012. Operating expenses for the three and nine month periods ended September 30, 2013 and 2012, include approximately \$332,000 and \$1,206,000, and \$240,000 and \$316,000, respectively, for the value of the stock options issued under the Plan.

A summary of stock option activity under the Plan for options to employees, officers, directors and consultants, for the nine months ended September 30, 2013, is presented below:

	Shares Underlying Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding at January 1, 2013	707,940	\$ 13.98		
Granted	525,603	2.06		
Exercised	—	—		
Forfeited	(13,394)	27.69		
Outstanding at September 30, 2013	<u>1,220,149</u>	<u>\$ 8.70</u>	8.6	<u>\$ 8,603</u>
Exercisable at September 30, 2013	<u>507,612</u>	<u>\$ 17.60</u>	7.8	<u>\$ 2,945</u>

The aggregate intrinsic value in the table above represents the total intrinsic value (the difference between the Company's closing stock price on September 30, 2013 and the exercise price, multiplied by the number of in-the-money options) that would have been received by the option holders, had all option holders been able to, and in fact had, exercised their options on September 30, 2013.

During the nine months ended September 30, 2013, 525,603 options were granted under the Plan to employees, officers, directors and consultants with a weighted average exercise price at grant date of \$2.06 per option. Included in the 525,603 options issued, the non-employee directors were granted a total of 209,333 options at an average exercise price of \$2.10 per share of which the majority vest quarterly over a one-year period, officers were granted 292,000 options at an average exercise price of \$2.04 per share vesting over a twenty-four month period and employees were granted 24,270 options at an average exercise price of \$2.02 per share which vest over a twenty-four month period following grant. All options were granted under the Company's 2002 Stock Incentive Plan and expire ten years from the grant date.

During the nine months ended September 30, 2013, a total of 13,394 options that were granted under the Plan to employees were forfeited, 6,086 of which were vested. The options were exercisable at an average of \$27.69 per share and were forfeited upon the employees' terminations from the Company or the expiration of the term of the options. During the nine months ended September 30, 2012, a total of 36,446 options that were granted under the Plan to employees, including an officer, were forfeited, 11,970 of which were vested. The options were exercisable at an average of \$38.88 per share and were forfeited upon the employees' terminations from the Company.

The total fair value of stock options granted to employees, directors and consultants that vested and became exercisable during the nine months ended September 30, 2013 and 2012, were approximately \$1,055,000 and \$1,363,000, respectively. Based upon the Company's experience, approximately 85% of the outstanding nonvested stock options, or approximately 606,000 options, are expected to vest in the future, in accordance with their terms.

A summary of the activity of nonvested options under the Plan to acquire common shares granted to employees, officers, directors and consultants during the nine months ended September 30, 2013 is presented below:

Nonvested Shares	Nonvested Shares Underlying Options	Weighted Average Exercise Price	Weighted Average Grant Date Fair Value
Nonvested at January 1, 2013	508,435	\$ 3.70	\$ 3.07
Granted	525,603	2.06	1.75
Vested	(314,193)	4.06	3.36
Forfeited	(7,308)	2.46	2.07
Nonvested at September 30, 2013	<u>712,537</u>	<u>\$ 2.35</u>	<u>\$ 1.98</u>

At September 30, 2013, based upon employee, officer, director and consultant options granted under the Plan, there was approximately \$480,000 of additional unrecognized compensation cost related to stock options that will be recorded over a weighted average future period of approximately one year.

**Other common stock purchase options and warrants:**

As of September 30, 2013, in addition to the stock options issued under the Plan as discussed above, the Company had outstanding non-qualified options and warrants to acquire 4,622,505 shares of common stock. These options and warrants include those issued in connection with stock offerings, officers' employment inducement awards and investor relations consulting.

During the nine month period ended September 30, 2013, warrants to acquire 4,025,000 shares of common stock were issued in connection with a public offering. Each warrant issued represents the right to acquire 0.35 of a share of common stock. During the nine month period ended September 30, 2012, 325,000 stock options were granted outside of the Plan.

Operating expenses for the three and nine month periods ended September 30, 2013 and 2012, include approximately \$0 and \$22,000, and \$15,000 and \$58,000, respectively, for the value of the non-qualified options and warrants.

Following is a summary of outstanding options and warrants that were issued outside of the Plan for the nine months ended September 30, 2013:

	<u>Shares Underlying Options / Warrants</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Remaining Contractual Term (Years)</u>	<u>Aggregate Intrinsic Value</u>
Outstanding at January 1, 2013	598,507	\$ 5.01		
Granted	4,025,000	1.36		
Exercised	—	—		
Forfeited	(1,002)	59.10		
Outstanding and exercisable at September 30, 2013	<u>4,622,505</u>	<u>\$ 1.82</u>	4.6	<u>\$ 2,334,500</u>

The aggregate intrinsic value above represents the total intrinsic value (the difference between the Company's closing stock price on September 30, 2013 and the exercise price, multiplied by the number of in-the-money options) that would have been received by the option holders, had all option holders been able to, and in fact had, exercised their options on September 30, 2013.

In May 2013, the Company completed a \$14.4 million public offering of securities and, in connection with that offering, granted investors in the offering warrants to purchase a total of 4,025,000 shares of common stock at an exercise price of \$1.36 per share and expiring in May 2018.

Included at September 30, 2013 in the total outstanding options and warrants are 4,597,505 non-compensatory rights granted in connection with public offerings and 25,000 rights issued under compensatory arrangements.

In June 2012, the Company completed a \$12.2 million public offering of securities and, in connection with that offering, granted the underwriter warrants to purchase a total of 305,000 shares of common stock. These warrants, which are included in the above table, became exercisable in June 2013 at an exercise price of \$2.50 per share and expire in June 2017.

The total fair value of stock options and warrants previously granted to an investor relations consulting firm and to certain officers that vested and became exercisable during the nine months ended September 30, 2013 and 2012, was approximately \$24,000 and \$56,000, respectively.

A summary of the activity of nonvested, non-qualified options and warrants granted outside of the Plan in connection with employment and investor relations consulting services during the nine months ended September 30, 2013, is presented below:

Nonvested Shares	Nonvested Shares Underlying Options	Weighted Average Exercise Price	Weighted Average Grant Date Fair Value
Nonvested at January 1, 2013	8,333	\$ 3.42	\$ 2.84
Granted	—	—	—
Vested	(8,333)	3.42	2.84
Forfeited	—	—	—
Nonvested at September 30, 2013	—	\$ —	\$ —

At September 30, 2013, there was no unrecognized cost for non-qualified options to be recorded in the future.

**Note 7. Animal Health License Agreements:**

Effective May 1, 2004, Washington University in St. Louis (WU) and Venaxis entered into an Exclusive License Agreement (WU License Agreement) which grants Venaxis exclusive license and right to sublicense WU's technology (as defined under the WU License Agreement) for veterinary products worldwide, except where such products are prohibited under U.S. laws for export. The term of the WU License Agreement continues until the expiration of the last of WU's patents (as defined in the WU License Agreement). Venaxis has agreed to pay minimum annual royalties of \$20,000 annually during the term of the WU License Agreement and such amounts are creditable against future royalties. Royalties payable to WU under the WU License Agreement for covered product sales by Venaxis carry a mid-single digit royalty rate and for sublicense fees received by Venaxis carry a low double-digit royalty rate. The WU License Agreement contains customary terms for confidentiality, prosecution and infringement provisions for licensed patents, publication rights, indemnification and insurance coverage. The WU License Agreement is cancelable by Venaxis with ninety days advance notice at any time and by WU with sixty days advance notice if Venaxis materially breaches the WU License Agreement and fails to cure such breach.

In July 2012, the Company entered into an Exclusive License Agreement (the "License Agreement") with Ceva Santé Animale S.A. ("Licensee"), under which the Company granted the Licensee an exclusive royalty-bearing license to the Company's intellectual property and other assets, including patent rights and know-how, relating to recombinant single chain reproductive hormone technology for use in non-human mammals (the "Company's Animal Health Assets"). The License Agreement includes a sublicense of the technology licensed to the Company by WU. Under the terms of the WU License Agreement, a portion of license fees and royalties Venaxis receives from sublicensing agreements will be paid to WU. The obligation for such license fees due to WU is included in accrued expenses at September 30, 2013.

Under the License Agreement, the Licensee obtained a worldwide exclusive license to develop, seek regulatory approval for and offer to sell, market, distribute, import and export luteinizing hormone ("LH") and/or follicle-stimulating hormone ("FSH") products for bovine (cattle), equine and swine in the field of the assistance and facilitation of reproduction in bovine, equine and swine animals. The Company also granted the Licensee an option and right of first refusal to develop additional animal health products outside of the licensed field of use or any diagnostic pregnancy detection tests for non-human mammals.

Under the License Agreement as of September 30, 2013, the following future milestone payments are provided, assuming future milestones are successfully achieved:

- Milestone payments, totaling up to a potential of \$1.1 million in the aggregate, based on the satisfactory conclusion of milestones as defined in the License Agreement;
- Potential for milestone payments of up to an additional \$2 million for development and receipt of regulatory approval for additional licensed products; and
- Royalties, at low double digit rates, based on sales of licensed products.

Revenue recognition related to the License Agreement and WU License Agreement is based primarily on the Company's consideration of ASC 808-10-45, "Accounting for Collaborative Arrangements". For financial reporting purposes, the license fees and milestone payments received from the License Agreement, net of the amounts due to third parties, including WU, have been recorded as deferred revenue and are amortized over the term of the License Agreement. License fees and milestone revenue totaling a net of approximately \$1,500,000 commenced being amortized into income upon the July 2012 date of milestone achievement. As of September 30, 2013, deferred revenue of \$92,868 has been classified as a current liability and \$1,324,514 has been classified as a long-term liability. The current liability represents the next twelve months' portion of the amortizable milestone revenue. During the three and nine month periods ended September 30, 2013, \$21,708 and \$61,612, respectively, was recorded as the amortized license fee revenue arising from the License Agreement. For the three and nine month periods ended September 30, 2012, a total of \$4,490 was recorded as the amortized license fee revenue.

A tabular summary of the revenue categories and amounts of revenue recognition associated with the License Agreement follows:

Category	Totals
License fees and milestone amounts received / achieved	\$ 1,841,000
Third party obligations recorded, including WU	(341,435 )
Deferred revenue balance	1,499,565
Revenue amortization to September 30, 2013	(82,183 )
Net deferred revenue balance at September 30, 2013	<u>\$ 1,417,382</u>
Commencement of license fees revenue recognition	Upon signing or receipt
Commencement of milestone revenue recognition	Upon milestone achievement over then remaining life
Original amortization period	197 months

The animal health technology licensed from WU in 2004 was previously sub-licensed in 2008 to Novartis Animal Health (“Novartis”) under a long-term world-wide development and marketing agreement. In November 2011, the Company entered into a Termination Agreement with Novartis Animal Health, Inc. (the “Novartis Termination Agreement”) to terminate the Novartis License Agreement. Under the Novartis Termination Agreement, the original termination obligation totaled \$1,374,000, which was payable \$150,000 upon signing the Novartis Termination Agreement and six equal subsequent quarterly installments of \$204,000 each. As of September 30, 2013, the termination obligation had been paid in full.

**Note 8. Commitments and contingencies:**

**Employment commitments:**

As of September 30, 2013, the Company has employment agreements with three officers providing aggregate annual minimum commitments totaling \$780,000. The agreements automatically renew at the end of each year unless terminated by either party and contain customary confidentiality and benefit provisions.

**Contingencies:**

On October 1, 2010, the Company received a complaint, captioned John Wolfe, individually and on behalf of all others similarly situated v. AspenBio Pharma, Inc. (now Venaxis, Inc.) et al., Case No. CV10 7365 (“Wolfe Suit”). This federal securities purported class action was filed in the U.S. District Court in the Central District of California on behalf of all persons, other than the defendants, who purchased common stock of the Company during the period between February 22, 2007 and July 19, 2010, inclusive. The complaint named as defendants certain officers and directors of the Company during such period. The complaint included allegations of violations of Section 10(b) of the Exchange Act and SEC Rule 10b-5 against all defendants, and of Section 20(a) of the Exchange Act against the individual defendants, all related to the Company’s blood-based acute appendicitis test in development. On the Company’s motion, this action was also transferred to the U.S. District Court for the District of Colorado by order dated January 21, 2011. The action was assigned a District of Colorado Civil Case No. 11-cv-00165-REB-KMT. On July 11, 2011, the court appointed a lead plaintiff and approved lead counsel. On August 23, 2011, the lead plaintiff filed an amended putative class action complaint.

On October 7, 2011, the Company filed a motion to dismiss the amended complaint. On September 13, 2012, the United States District Court for Colorado granted the Company’s motion to dismiss, dismissing the plaintiffs’ claims against all defendants without prejudice. On September 14, 2012, the court entered Final Judgment without prejudice on behalf of all defendants and against all plaintiffs in the Wolfe Suit. The Order to dismiss the action found in favor of the Company and all of the individual defendants. On October 12, 2012, the plaintiffs filed a Notice of Appeal of the Order granting the motion to dismiss and of the Final Judgment in the Wolfe Suit. Following oral argument, the Tenth Circuit Court of Appeals took the fully-briefed appeal under submission on September 26, 2013. The Company and the individual defendants believe that the plaintiffs’ allegations are without merit, have vigorously defended against these claims, and intend to continue to do so.

In the ordinary course of business and in the general industry in which the Company is engaged, it is not atypical to periodically receive a third party communication which may be in the form of a notice, threat, or ‘cease and desist’ letter concerning certain activities. For example, this can occur in the context of the Company’s pursuit of intellectual property rights. This can also occur in the context of operations such as the using, making, having made, selling, and offering to sell products and services, and in other contexts. The Company makes rational assessment of each situation on a case-by-case basis as such may arise. The Company periodically evaluates its options for trademark positions and considers a full spectrum of alternatives for trademark protection and product branding.

We are not a party to any other legal proceedings, the adverse outcome of which would, in our management's opinion, have a material adverse effect on our business, financial condition and results of operations.

**Customer concentration:**

At September 30, 2013, three customers accounted for total accounts receivable. For the three and nine months ended September 30, 2013, three customers individually accounted for the Company's sales for the periods, representing approximately 43%, 22% and 35%, respectively. For the nine months ended September 30, 2012, three customers individually represented more than 10% of the Company's sales, accounting for approximately 41%, 31% and 13% respectively, of the sales for the period. For the three months ended September 30, 2012, one customer individually represented 96% of the Company's sales.

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

### Management's plans and basis of presentation:

The Company has experienced recurring losses and negative cash flows from operations. At September 30, 2013, the Company had approximate balances of cash and liquid investments of \$17,288,000, working capital of \$15,446,000, stockholders' equity of \$15,869,000 and an accumulated deficit of \$83,252,000. To date, the Company has in large part relied on equity financing to fund its operations. The Company expects to continue to incur losses from operations for the near-term and these losses could be significant as product development, clinical and regulatory activities, consulting expenses and other product development related expenses are incurred. In May 2013, the Company completed a public offering and refinanced its commercial bank mortgage obligation. Following the May 2013 public offering, the Company believes that its current working capital position will be sufficient to meet its estimated cash needs for the remainder of 2013 and into 2014. If the Company is not able to obtain additional capital when needed, the Company would potentially be required to reduce the scope of its research and development activities or cease operations. The Company is closely monitoring its cash balances, cash needs and expense levels.

Management's strategic plans include the following:

- continuing to advance development of the Company's principal product, *APPY1*;
- continuing to explore prospective partnering or licensing opportunities with complementary opportunities and technologies; and
- continuing to monitor and implement cost control initiatives to conserve cash.

### Results of Operations

#### Comparative Results for the Nine Months Ended September 30, 2013 and 2012

Sales of approximately \$56,000 were recorded for the nine months ended September 30, 2013 as compared to \$41,000 in the 2012 period. In 2013, revenues were generated by *APPY1* product sales. Sales of the *APPY1* products in 2013 have been made to customers for initial stocking orders in the EU under commercial development agreements. In 2012, revenues were generated by sales of antigen products. Antigen production was suspended in 2010.

In July 2012, the Company entered into an Exclusive License Agreement (License Agreement) with Ceva Santé Animale S.A. (Licensee) under which the Company granted the Licensee an exclusive royalty-bearing license to the Company's intellectual property and other assets, including patent rights and know-how, relating to recombinant single chain reproductive hormone technology for use in non-human mammals (Company's Animal Health Assets). The net total payments received under this agreement were recorded as deferred revenue and are being recognized as revenue over future periods. During the nine months ended September 30, 2013, \$62,000 of such license payments was recognized as revenue, as compared to \$4,000 in the nine months ended September 30, 2012.

Selling, general and administrative expenses in the nine months ended September 30, 2013 totaled \$4,105,000, which is a \$160,000, or 4%, increase as compared to the 2012 period. Commercialization and marketing expenses increased by approximately \$409,000 in the 2013 period as the Company advanced on its product commercialization strategy in the EU and US. Issuances of stock options in late 2012 and early 2013 resulted in an increase of approximately \$585,000 in stock option expense in the nine months ended September 30, 2013. In the 2012 period, the Company accrued an incentive bonus expense of approximately \$301,000 upon the achievement of incentive plan milestones. No such expense was recognized for the 2013 period.

Research and development expenses in the nine months ended September 30, 2013 totaled \$5,019,000, which is approximately a \$2,396,000, or 91%, increase as compared to the 2012 period. *APPY1* test related expenses increased by approximately \$2,053,000 in 2013 as compared to 2012, due primarily to clinical trial activities.

Primarily as a result of the higher levels of cash for the nine months ended September 30, 2013 as compared to the 2012 period, interest income of approximately \$39,000 was earned in 2013 as compared to \$6,000 in 2012. Interest expense for the nine months ended September 30, 2013 decreased to \$107,000, compared to \$191,000 in the 2012 period, primarily as a result of refinancing of the commercial bank portion of the mortgage at a lower rate in 2013.

No income tax benefit was recorded on the net loss for the nine months ended September 30, 2013 and 2012, as management was unable to determine that it was more likely than not that such benefit would be realized.



## Comparative Results for the Three Months Ended September 30, 2013 and 2012

Sales of approximately \$56,000 were recorded for the three months ended September 30, 2013 as compared to \$6,200 in the 2012 period. In 2013, revenues were generated by *APPY1* product sales. Sales of the *APPY1* products in 2013 have been made to customers for initial stocking orders in the EU under commercial development agreements. In 2012, revenues were generated by sales of antigen products. Antigen production was suspended in 2010.

In July 2012, the Company entered into an Exclusive License Agreement (License Agreement) with Ceva Santé Animale S.A. (Licensee) under which the Company granted the Licensee an exclusive royalty-bearing license to the Company's intellectual property and other assets, including patent rights and know-how, relating to recombinant single chain reproductive hormone technology for use in non-human mammals (Company's Animal Health Assets). The net total payments received under this agreement were recorded as deferred revenue and are being recognized as revenue over future periods. During the three months ended September 30, 2013, \$22,000 of such license payments was recognized as revenue, as compared to \$4,000 in the three months ended September 30, 2012.

Selling, general and administrative expenses in the three months ended September 30, 2013, totaled \$1,323,000, which is a \$23,000, or 2%, decrease as compared to the 2012 period. The difference arose from routine changes in expenses in the normal course of business.

Research and development expenses in the three months ended September 30, 2013 totaled \$1,806,000, which is approximately a \$740,000, or 69%, increase as compared to the 2012 period. *APPY1* test related expenses increased by approximately \$632,000 in 2013 as compared to 2012, due primarily to clinical trial activities.

Primarily as a result of the higher levels of cash for the three months ended September 30, 2013 as compared to the 2012 period, interest income of approximately \$7,000 was earned in 2013 as compared to \$3,000 in 2012. Interest expense for the three months ended September 30, 2013 decreased to \$32,000, compared to \$61,000 in the 2012 period, primarily as a result of refinancing of the commercial bank portion of the mortgage at a lower rate in 2013.

### Liquidity and Capital Resources

At September 30, 2013, we had working capital of approximately \$15,446,000, which included cash, cash equivalents and short term investments of approximately \$17,288,000. We reported a net loss of approximately \$9,019,000 during the nine months ended September 30, 2013, which included \$1,421,000 in net non-cash expenses including stock-based compensation totaling \$1,228,000 and depreciation and amortization totaling \$252,000

Currently, our primary focus is to continue the development activities on our acute appendicitis diagnostic test, including advancement of the steps required for FDA clearance, as well as advancing on commercialization and marketing activities following the early 2013 attainment of CE marking in the EU.

We expect to continue to incur losses from operations for the near-term and these losses could be significant as we incur product development, clinical and regulatory activities, contract consulting and other product development and commercialization related expenses. We believe that our current working capital position will be sufficient to meet our estimated cash needs for the remainder of 2013 and into 2014.

We expect that our primary expenditures will be to continue enrollment of our FDA clinical trial for *APPY1* and to support commercialization and marketing activities of our appendicitis test in Europe following the recent successful completion of CE marking. Based upon our experience, clinical trial expenses can be significant costs. During the nine month periods ended September 30, 2013 and 2012, we expended approximately \$3,521,000 and \$1,466,000, respectively, in direct costs for *APPY1* development and related clinical and regulatory efforts. Steps to achieve commercialization of the acute appendicitis product will be an ongoing and evolving process with expected improvements and possible subsequent generations being evaluated for the test. Should we be unable to achieve FDA clearance of the *APPY1* appendicitis test or generate sufficient revenues from the product, we would need to rely on other business or product opportunities to generate revenues and costs that we have incurred for the acute appendicitis patent may be deemed impaired.

During July 2012, the Company entered into a License Agreement with the Licensee, under which the Company granted the Licensee an exclusive royalty-bearing license to the Company's Animal Health Assets. The License Agreement includes a sublicense of the technology licensed to the Company by WU. Under the terms of the WU License Agreement, a portion of license fees and royalties Venaxis receives from sublicensing agreements will be paid to WU. Obligation for license fees due to WU is included in accrued expenses at September 30, 2013.

Under the License Agreement, the following milestone payments will be paid to the Company, assuming future milestones are successfully achieved by the Licensee:

- Milestone payments, totaling up to a potential of \$1.1 million in the aggregate, based on the satisfactory conclusion of milestones as defined in the License Agreement;
- Potential for milestone payments of up to an additional \$2 million for development and receipt of regulatory approval for additional licensed products; and
- Royalties, at low double digit rates, based on sales of licensed products.

We have entered and expect to continue to enter into additional agreements with contract manufacturers for the development and manufacture of certain of our products for which we are seeking FDA approval. The goal of this development process is to establish current good manufacturing practices (cGMP) required for those products for which we are seeking FDA approval. These development and manufacturing agreements generally contain transfer fees and possible penalty and royalty provisions if we transfer our products to another contract manufacturer. We expect to continue to evaluate, negotiate and execute additional and expanded development and manufacturing agreements, some of which may be significant commitments. We may also consider acquisitions of development technologies or products, if opportunities arise that we believe fit our business strategy and would be appropriate from a capital standpoint.

Capital expenditures, primarily for production, laboratory and facility improvement costs for remainder of the year ending December 31, 2013 are anticipated to total approximately \$50,000 to \$100,000. We anticipate these capital expenditures to be financed through working capital.

The Company periodically enters into generally short-term consulting and development agreements primarily for product development, testing services and in connection with clinical trials conducted as part of the Company's FDA clearance process. Such commitments at any point in time may be significant but the agreements typically contain cancellation provisions.

We have a permanent mortgage on our land and building that was refinanced in May 2013. The mortgage is held by a commercial bank and includes a portion guaranteed by the U. S. Small Business Administration. The loan is collateralized by the real property and the SBA portion is also personally guaranteed by a former officer of the Company. The commercial bank loan terms include a payment schedule based on a fifteen year amortization, with a balloon maturity at five years. The commercial bank portion has an interest rate fixed at 3.95%, and the SBA portion bears interest at the rate of 5.86%. The commercial bank portion of the loan requires total monthly payments of approximately \$11,700, which includes approximately \$5,200 per month in interest. The SBA portion of the loan requires total monthly payments of approximately \$9,200 through July 2023, which currently includes approximately \$4,100 per month in interest and fees.

Due to recent market events that have adversely affected all industries and the economy as a whole, management has placed increased emphasis on monitoring the risks associated with the current environment, particularly the investment parameters of the short term investments, the recoverability of current assets, the fair value of assets, and the Company's liquidity. At this point in time, there has not been a material impact on the Company's assets and liquidity. Management will continue to monitor the risks associated with the current environment and their impact on the Company's results.

### **Operating Activities**

Net cash consumed by operating activities was approximately \$6,930,000 during the nine months ended September 30, 2013. Cash was consumed by the loss of approximately \$9,019,000, less non-cash expenses including \$1,228,000 for stock-based compensation and \$252,000 for depreciation and amortization. For the nine months ended September 30, 2013, increases in accounts payable and accrued expenses of \$587,000 reduced cash consumption, primarily related to the costs accrued on the *APPY1* trial activities in 2013. A decrease of \$229,000 in prepaid expenses and other current assets generated cash from operating activities. Cash provided by operations included an increase of approximately \$317,000 in deferred revenue due to activities under the License Agreement.

Net cash consumed by operating activities was \$3,602,000 during the nine months ended September 30, 2012. Cash was consumed by the loss of \$6,708,000, less non-cash expenses of \$706,000 for stock-based compensation and \$375,000 for depreciation and amortization, impairment and other non-cash items. For the nine months ended September 30, 2012, decreases in accounts receivable generated cash of \$32,000. Decreases in prepaid and other current assets of \$330,000 provided cash, primarily related to routine changes in operating activities. A \$351,000 increase in accounts payable and accrued expenses reduced cash consumption in the nine months ended September 30, 2012, primarily due to the Company's *APPY1* clinical and regulatory activities. An increase of \$276,000 in accrued compensation provided cash. Cash provided by operations included an increase of \$1,036,000 in deferred revenue, following the execution of the License Agreement for the Company's animal health assets.

## Investing Activities

Net cash outflows from investing activities consumed \$11,873,000 during the nine months ended September 30, 2013. Purchases of short-term investments totaled approximately \$17,759,000. Sales of short-term investments totaled approximately \$5,990,000. A \$79,000 use of cash was attributable to additional costs incurred from patent filings and other assets and approximately \$24,000 was consumed for purchases of property and equipment.

Net cash inflows from investing activities generated \$512,000 during the nine months ended September 30 2012. Sales of marketable securities investments totaled approximately \$1,213,000 and marketable securities purchased totaled approximately \$599,000. A \$102,000 use of cash was attributable to additional costs incurred from capitalized patent filings and equipment additions.

## Financing Activities

Net cash inflows from financing activities generated \$12,181,000 during the nine month period ended September 30, 2013. The Company received net proceeds of \$12,970,000 from the sale of common stock in a public offering and repaid \$789,000 in scheduled payments under its debt agreements.

Net cash inflows from financing activities generated \$9,959,000 during the nine month period ended September 30, 2012. The Company received net proceeds of \$10,939,000 from the sale of common stock in a public offering of securities and repaid \$980,000 in scheduled payments under its debt agreements.

## Critical Accounting Policies

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions about future events that affect the amounts reported in the financial statements and accompanying notes. Future events and their effects cannot be determined with absolute certainty. Therefore, the determination of estimates requires the exercise of judgment. Actual results inevitably will differ from those estimates, and such differences may be material to the financial statements. The most significant accounting estimates inherent in the preparation of our financial statements include estimates associated with revenue recognition, impairment analysis of intangibles and stock-based compensation.

The Company's financial position, results of operations and cash flows are impacted by the accounting policies the Company has adopted. In order to get a full understanding of the Company's financial statements, one must have a clear understanding of the accounting policies employed. A summary of the Company's critical accounting policies follows:

**Investments:** The Company invests excess cash from time to time in highly liquid debt and equity securities of highly rated entities which are classified as trading securities. Such amounts are recorded at market and are classified as current, as the Company does not intend to hold the investments beyond twelve months. Such excess funds are invested under the Company's investment policy but an unexpected decline or loss could have an adverse and material effect on the carrying value, recoverability or investment returns of such investments. Our Board has approved an investment policy covering the investment parameters to be followed with the primary goals being the safety of principal amounts and maintaining liquidity of the fund. The policy provides for minimum investment rating requirements as well as limitations on investment duration and concentrations.

**Intangible Assets:** Intangible assets primarily represent legal costs and filings associated with obtaining patents on the Company's new discoveries. The Company amortizes these costs over the shorter of the legal life of the patent or its estimated economic life using the straight-line method. The Company tests intangible assets with finite lives upon significant changes in the Company's business environment. The testing resulted in \$3,000 in patent impairment charges during the nine months ended September 30, 2013 and \$45,000 for the nine months ended September 30, 2012.

**Long-Lived Assets:** The Company records property and equipment at cost. Depreciation of the assets is recorded on the straight-line basis over the estimated useful lives of the assets. Dispositions of property and equipment are recorded in the period of disposition and any resulting gains or losses are charged to income or expense when the disposal occurs. The Company reviews for impairment whenever there is an indication of impairment. The required annual testing resulted in no impairment charges being recorded to date.

**Revenue Recognition:** The Company's revenues are recognized when products are shipped or delivered to unaffiliated customers. The Securities and Exchange Commission's Staff Accounting Bulletin (SAB) No. 104, provides guidance on the application of generally accepted accounting principles to select revenue recognition issues. The Company has concluded that its revenue recognition policy is appropriate and in accordance with SAB No. 104. Revenue is recognized under sales, license and distribution agreements only after the following criteria are met: (i) there exists adequate evidence of the transactions; (ii) delivery of goods has occurred or services have been rendered; and (iii) the price is not contingent on future activity and (iv) collectability is reasonably assured.

**Stock-based Compensation:** ASC 718, *Share-Based Payment*, defines the fair-value-based method of accounting for stock-based employee compensation plans and transactions used by the Company to account for its issuances of equity instruments to record compensation cost for stock-based employee compensation plans at fair value as well as to acquire goods or services from non-employees. Transactions in which the Company issues stock-based compensation to employees, directors and consultants and for goods or services received from non-employees are accounted for based on the fair value of the equity instruments issued. The Company utilizes pricing models in determining the fair values of options and warrants issued as stock-based compensation. These pricing models utilize the market price of the Company's common stock and the exercise price of the option or warrant, as well as time value and volatility factors underlying the positions.

**Recently issued and adopted accounting pronouncements:**

The Company has evaluated all recently issued accounting pronouncements and believes such pronouncements do not have a material effect on the Company's financial statements.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION AND STATEMENTS

Certain statements in Management's Discussion and Analysis of Financial Condition and Results of Operations and other portions of this report are forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, and are subject to the safe harbor created thereby. These statements relate to future events or the Company's future financial performance and involve known and unknown risks, uncertainties and other factors that may cause the actual results, levels of activity, performance or achievements of the Company or its industry to be materially different from those expressed or implied by any forward-looking statements. In some cases, forward-looking statements can be identified by terminology such as "may," "will," "could," "would," "should," "expect," "plan," "anticipate," "intend," "believe," "estimate," "predict," "potential" or other comparable terminology. Please see the "Risk Factors" in Part II, Item 1A of the Periodic Report on Form 10-Q for a discussion of certain important factors that relate to forward-looking statements contained in this report. Although the Company believes that the expectations reflected in these forward-looking statements are reasonable, it can give no assurance that such expectations will prove to be correct. Unless otherwise required by applicable securities laws, the Company disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

**General**

We have limited exposure to market risks from instruments that may impact the *Balance Sheets, Statements of Operations, and Statements of Cash Flows*. Such exposure is due primarily to changing interest rates.

**Interest Rates**

The primary objective for our investment activities is to preserve principal while maximizing yields without significantly increasing risk. This is accomplished by investing excess cash in highly liquid debt and equity investments of highly rated entities which are classified as trading securities. As of September 30, 2013, approximately 16% of the investment portfolio was in cash and cash equivalents with very short term maturities and therefore not subject to any significant interest rate fluctuations. We have no investments denominated in foreign currencies and therefore our investments are not subject to foreign currency exchange risk.

#### **Item 4. Controls and Procedures**

##### **Evaluation of Disclosure Controls and Procedures**

Management of the Company, including the Chief Executive Officer and the Chief Financial Officer, has conducted an evaluation of the effectiveness of the Company's disclosure controls and procedures (as defined in the Securities Exchange Act of 1934 Rule 13a-15(e)) as of the last day of the period of the accompanying financial statements. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective as of September 30, 2013.

##### *Changes in Internal Control Over Financial Reporting.*

There was no change in the Company's internal control over financial reporting that occurred during the fiscal quarter to which this report relates that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

## PART II - OTHER INFORMATION

### Item 1. Legal Proceedings

On October 1, 2010, the Company received a complaint, captioned John Wolfe, individually and on behalf of all others similarly situated v. AspenBio Pharma, Inc. (now Venaxis, Inc.) et al., Case No. CV10 7365 (“Wolfe Suit”). This federal securities purported class action was filed in the U.S. District Court in the Central District of California on behalf of all persons, other than the defendants, who purchased common stock of the Company during the period between February 22, 2007 and July 19, 2010, inclusive. The complaint named as defendants certain officers and directors of the Company during such period. The complaint included allegations of violations of Section 10(b) of the Exchange Act and SEC Rule 10b-5 against all defendants, and of Section 20(a) of the Exchange Act against the individual defendants, all related to the Company’s blood-based acute appendicitis test in development. On the Company’s motion, this action was also transferred to the U.S. District Court for the District of Colorado by order dated January 21, 2011. The action was assigned a District of Colorado Civil Case No. 11-cv-00165-REB-KMT. On July 11, 2011, the court appointed a lead plaintiff and approved lead counsel. On August 23, 2011, the lead plaintiff filed an amended putative class action complaint.

On October 7, 2011, the Company filed a motion to dismiss the amended complaint. On September 13, 2012, the United States District Court for Colorado granted the Company’s motion to dismiss, dismissing the plaintiffs’ claims against all defendants without prejudice. On September 14, 2012, the court entered Final Judgment without prejudice on behalf of all defendants and against all plaintiffs in the Wolfe Suit. The Order to dismiss the action found in favor of the Company and all of the individual defendants. On October 12, 2012, the plaintiffs filed a Notice of Appeal of the Order granting the motion to dismiss and of the Final Judgment in the Wolfe Suit. Following oral argument, the Tenth Circuit Court of Appeals took the fully-briefed appeal under submission on September 26, 2013. The Company and the individual defendants believe that the plaintiffs’ allegations are without merit, have vigorously defended against these claims, and intend to continue to do so.

We are not a party to any other legal proceedings, the adverse outcome of which would, in our management’s opinion, have a material adverse effect on our business, financial condition and results of operations.

### Item 1A. Risk Factors

There have been no material changes from the risk factors disclosed in our Quarterly Report on Form 10-Q, for the period ended June 30, 2013.

### Item 6. Exhibits

(a) Exhibits

<u>EXHIBIT</u>	<u>DESCRIPTION</u>
31.1	Rule 13a-14(a)/15d-14(a) - Certification of Chief Executive Officer. Filed herewith.
31.2	Rule 13a-14(a)/15d-14(a) - Certification of Chief Financial Officer. Filed herewith.
32	Section 1350 Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. Furnished herewith.
101	Interactive data files pursuant to Rule 405 of Regulation S-T: (i) the Balance Sheets, (ii) the Statements of Operations, (iii) the Statement of Cash Flows and (iv) the Notes to Condensed Financial Statements. (1)
(1)	Pursuant to Rule 406T of Regulation S-T, the XBRL related information in Exhibit 101 to this Quarterly Report on Form 10-Q shall not be deemed to be filed by the Company for purposes of Section 18 or any other provision of the Exchange Act of 1934, as amended.

SIGNATURES

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

Venaxis, Inc.  
(Registrant)

By: /s/ Jeffrey G. McGonegal  
Jeffrey G. McGonegal,  
Chief Financial Officer and duly authorized officer

Dated: November 7, 2013





## CERTIFICATION

I, Stephen T. Lundy, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Venaxis, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report.
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

November 7, 2013

/s/ Stephen T. Lundy  
Stephen T. Lundy, Chief Executive Officer and  
President

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## CERTIFICATION

I, Jeffrey G. McGonegal, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Venaxis, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

November 7, 2013

/s/ Jeffrey G. McGonegal  
Jeffrey G. McGonegal, Chief  
Financial Officer

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

In connection with the Quarterly Report on Form 10-Q (the "Report") of Venaxis, Inc. (the "Company") for the quarter ended September 30, 2013, each of the undersigned Stephen T. Lundy and Jeffrey G. McGonegal, hereby certifies pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of the undersigned's knowledge and belief:

- (1) the Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

November 7, 2013

/s/ Stephen T. Lundy  
Stephen T. Lundy, Chief Executive Officer and  
President

November 7, 2013

/s/ Jeffrey G. McGonegal  
Jeffrey G. McGonegal, Chief Financial Officer

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