VERMILLION, INC.
Form 10-Q
August 14, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

x **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.**
For the quarterly period ended June 30, 2012.

OR

¨ **Transition Report under Section 13 or 15(d) of the Securities Exchange Act of 1934.**
For the transition period from to .

Commission File Number: 001-34810

Vermillion, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**33-0595156**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
12117 Bee Caves Road, Building Three, Suite 100, Austin, Texas	**78738**
(Address of principal executive offices)	**(Zip Code)**

(512) 519-0400

(Registrant s telephone number, including area code)

Not applicable

(Former name, former address and former fiscal year, if changed since last report)

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 x 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 shorter period that the registrant was required to submit and post such files). Yes x 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 ¨ (Do not check if a smaller reporting company)	Smaller reporting company x

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

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes x No ¨

As of July 31, 2012, the Registrant had 15,040,913 shares of common stock, par value $0.001 per share, outstanding.

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PART I - FINANCIAL INFORMATION

ITEM 1. UNAUDITED FINANCIAL STATEMENTS

Vermillion, Inc.

Consolidated Balance Sheets

(Amounts in Thousands, Except Share and Par Value Amounts)

(Unaudited)

	June 30, 2012	December 31, 2011
Assets		
Current assets:		
Cash and cash equivalents	$ 18,290	$ 22,477
Accounts receivable	107	99
Prepaid expenses and other current assets	335	317
Total current assets	18,732	22,893
Property and equipment, net	186	216
Other assets		2
Total assets	$ 18,918	$ 23,111
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable	$ 582	$ 1,331
Accrued liabilities	2,321	2,592
Short-term debt	7,000	7,000
Deferred revenue	853	553
Total current liabilities	10,756	11,476
Deferred revenue	997	1,224
Other liabilities		52
Total liabilities	11,753	12,752
Commitments and contingencies (Note 5)		
Stockholders equity:		
Preferred stock, $0.001 par value, 5,000,000 shares authorized, none issued and outstanding at June 30, 2012 and December 31, 2011, respectively		
Common stock, $0.001 par value, 150,000,000 shares authorized at June 30, 2012 and December 31, 2011; 15,040,913 and 14,900,831 shares issued and outstanding at June 30, 2012 and December 31, 2011, respectively	15	15
Additional paid-in capital	327,353	326,796
Accumulated deficit	(320,049)	(316,299)
Accumulated other comprehensive loss	(154)	(153)
Total stockholders equity	7,165	10,359

Total liabilities and stockholders equity	$ 18,918	$ 23,111

See accompanying notes to the consolidated financial statements.

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Vermillion, Inc.

Consolidated Statements of Operations

(Amounts in Thousands, Except Share and Per Share Amounts)

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Revenue:				
Product	$ 208	$ 191	$ 406	$ 508
License	113	113	227	227
Total revenue	321	304	633	735
Cost of revenue:				
Product	28	37	66	79
Total cost of revenue	28	37	66	79
Gross profit	293	267	567	656
Operating expenses:				
Research and development[(1)]	1,002	1,631	1,454	2,849
Sales and marketing[(2)]	1,122	1,503	2,640	2,821
General and administrative[(3)]	1,840	2,730	2,308	5,030
Total operating expenses	3,964	5,864	6,402	10,700
Loss from operations	(3,671)	(5,597)	(5,835)	(10,044)
Interest income	8	21	16	37
Interest expense	(66)	(115)	(131)	(230)
Gain on sale of instrument business	1,780		1,780	
Gain on litigation settlement, net			379	
Change in fair value of warrants		35		342
Reorganization items		(16)	88	(32)
Other income (expense), net	(25)	(41)	(47)	(77)
Loss before income taxes	(1,974)	(5,713)	(3,750)	(10,004)
Income tax benefit (expense)				
Net loss	$ (1,974)	$ (5,713)	$ (3,750)	$ (10,004)
Net loss per share - basic and diluted	$ (0.13)	$ (0.39)	$ (0.25)	$ (0.73)
Comprehensive loss	$ (1,973)	$ (5,712)	$ (3,751)	$ (10,004)
Weighted average common shares used to compute basic and diluted net loss per common share	14,957,224	14,736,939	14,930,339	13,645,520

Non-cash stock-based compensation expense included in operating expenses:

(1)	Research and development	$ 40	$ 203	$ 74	$ 409
(2)	Sales and marketing	57	39	93	82
(3)	General and administrative	314	1,050	384	2,053

See accompanying notes to the consolidated financial statements.

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Vermillion, Inc.

Consolidated Statements of Cash Flows

(Amounts in Thousands)

(Unaudited)

	Six Months Ended June 30, 2012	2011
Cash flows from operating activities:		
Net loss	$ (3,750)	$ (10,004)
Adjustments to reconcile net loss to net cash used in operating activities:		
Change in fair value of warrants		(342)
Non-cash license revenue	(227)	(227)
Depreciation and amortization	42	34
Loss on sale and disposal of property and equipment	2	
Stock-based compensation expense	544	2,544
Warrants issued for services	7	
Gain from sale of instrument business to Bio-Rad	(1,780)	
Changes in operating assets and liabilities:		
Accounts receivable	(8)	21
Prepaid expenses and other assets	(16)	359
Accounts payable, accrued liabilities and other liabilities	(1,040)	1,231
Deferred revenue	300	(49)
Reorganization Items	(32)	(338)
Net cash used in operating activities	(5,958)	(6,771)
Cash flows from investing activities:		
Proceeds from the sale of instrument business to Bio-Rad	1,780	
Purchase of property and equipment	(14)	(93)
Net cash provided by (used in) investing activities	1,766	(93)
Cash flows from financing activities:		
Proceeds from sale of common stock, net of issuance costs		20,206
Proceeds from issuance of common stock from exercise of stock options	6	28
Net cash provided by financing activities	6	20,234
Effect of exchange rate changes on cash and cash equivalents	(1)	1
Net (decrease) increase in cash and cash equivalents	(4,187)	13,371
Cash and cash equivalents, beginning of period	22,477	22,914
Cash and cash equivalents, end of period	$ 18,290	$ 36,285
Supplemental disclosure of cash flow information:		
Cash paid during the period for interest	$ 132	$ 231

See accompanying notes to the consolidated financial statements.

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Vermillion, Inc.

Notes to Consolidated Financial Statements

(Unaudited)

1. Organization, Basis of Presentation and Significant Accounting and Reporting Policies

Organization

Vermillion, Inc. (Vermillion ; Vermillion and its wholly-owned subsidiaries are collectively referred to as we or the Company) is incorporated in the state of Delaware, and is engaged in the business of developing and commercializing diagnostic tests in the fields of oncology, vascular medicine and women s health. On March 9, 2010, we commercially launched our flagship product, OVA1 . We distribute OVA1 through Quest Diagnostics Incorporated (Quest Diagnostics), a related party, which has the non-exclusive right to commercialize OVA1 on a worldwide basis, with exclusive commercialization rights in the clinical reference lab marketplace in the United States, India, Mexico, and the United Kingdom beginning on the date OVA1 was first commercialized and ending on the fifth anniversary of the date that OVA1 was cleared by the United States Food and Drug Administration (the FDA), with the right to extend the exclusivity period for one additional year.

Liquidity

On February 18, 2011, we completed an underwritten follow-on public offering of our common stock for net proceeds of $20,206,000 after deducting underwriting discounts and offering expenses. We expect cash for OVA1 from Quest Diagnostics to be our only material, recurring source of cash in 2012. In order to continue our operations as currently planned through 2013 and beyond, we will need to raise additional capital. Given these conditions, there is substantial doubt about the Company s ability to continue as a going concern. The consolidated financial statements have been prepared on a going concern basis and do not include any adjustments that might result from these uncertainties.

The successful achievement of our business objectives will require additional financing and, therefore, we will need to raise additional capital or incur indebtedness to continue to fund our future operations. We will seek to raise capital through a variety of sources, which may include the public equity market, private equity financing, collaborative arrangements, licensing arrangements, and/or public or private debt.

Any additional equity financing may be dilutive to stockholders, and debt financing, if available, may involve restrictive covenants and dilution to stockholders. If we obtain additional funds through arrangements with collaborators or strategic partners, we may be required to relinquish our rights to certain technologies or products that we might otherwise seek to retain. Additional funding may not be available when needed or on terms acceptable to us. If we are unable to obtain additional capital, we may be required to delay, reduce the scope of or eliminate our sales and marketing and/or research and development activities.

Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments, consisting of normal recurring adjustments necessary for the fair statement of results for the periods presented, have been included. The results of operations of any interim period are not necessarily indicative of the results of operations for the full year or any other interim period.

The unaudited consolidated financial statements and related disclosures have been prepared with the presumption that users of the interim unaudited consolidated financial statements have read or have access to the audited consolidated financial statements for the preceding fiscal

year. The consolidated balance sheet at December 31, 2011 has been derived from the audited consolidated financial statements at that date but does not include all the information and footnotes required by GAAP. Accordingly, these unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto for the year ended December 31, 2011, included in our Annual Report on Form 10-K filed with the Securities and Exchange Commission (the SEC) on March 27, 2012, as amended by our Amendment No. 1 to Annual Report on Form 10-K/A filed with the SEC on April 27, 2012 and Amendment No. 2 to Annual Report on Form 10-K/A filed with the SEC on May 30, 2012.

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The Financial Accounting Standards Board s (FASB) Accounting Standards Codification (ASC) 852 Reorganizations applied to the Company s financial statements while we operated under the provisions of Chapter 11 of the United States Bankruptcy Code (Chapter 11). ASC 852 does not change the application of GAAP in the preparation of financial statements. However, for periods including and subsequent to the filing of the Chapter 11 petition, ASC 852 does require that the financial statements distinguish transactions and events that are directly associated with the reorganization from the ongoing operations of the business. Accordingly, certain expenses that were realized or incurred during the Chapter 11 proceedings have been classified as reorganization items on the accompanying consolidated statements of operations.

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, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimated results.

Significant Accounting and Reporting Policies

We have made no significant changes in our critical accounting policies and significant estimates from those disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2011, filed with the SEC on March 27, 2012, as amended by our Amendment No. 1 to Annual Report on Form 10-K/A filed with the SEC on April 27, 2012 and Amendment No. 2 to Annual Report on Form 10-K/A filed with the SEC on May 30, 2012.

2. Chapter 11 Bankruptcy

On March 30, 2009, we filed a voluntary petition for relief under Chapter 11 (our Bankruptcy Filing) in the United States Bankruptcy Court for the District of Delaware (the Bankruptcy Court). On January 22, 2010, we emerged from bankruptcy and our Bankruptcy Filing was formally closed on January 19, 2012.

Financial Statement Presentation

The accompanying consolidated financial statements have been prepared in accordance with ASC 852, and on a going-concern basis, which contemplates continuity of operations, realization of assets and liquidation of liabilities in the ordinary course of business.

Reorganization Items

Professional advisory fees and other costs directly associated with our reorganization are reported separately as reorganization items pursuant to ASC 852. Professional fees include legal fees undertaken as part of the reorganization process. Certain expenses incurred by non-debtors are paid by the Company and are reported as reorganization items. The reorganization items in the consolidated statement of operations for the three and six months ended June 30, 2012 and 2011 consisted of the following items:

(in thousands)	Three Months Ended June 30, 2012	2011	Six Months Ended June 30, 2012	2011
Debtors reorganization items				
Professional fees associated with bankruptcy proceedings	$	$ 15	$ 15	$ 31
Gain on adjustment of allowed claims			(103)	
Total debtors reorganization items		15	(88)	31
Non-Debtors reorganization items				
Professional fees associated with bankruptcy proceedings		1		1
Total reorganization items	$	$ 16	$ (88)	$ 32

3. Recent Accounting Pronouncements

Comprehensive Income In June 2011, the FASB issued new guidance on the presentation of comprehensive income. Specifically, the new guidance allows an entity to present components of net income and other comprehensive income in one continuous statement, referred to as the statement of comprehensive income, or in two separate, but consecutive, statements. The new guidance eliminates the current option to report other comprehensive income and its components in the statement of changes in equity. While the new guidance changes the presentation of comprehensive income, there are no changes to the components that are recognized in net income

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or other comprehensive income under current accounting guidance. In December 2011, the FASB issued ASU No. 2011-12, Comprehensive Income (Topic 220) Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in ASU 2011-05, which defers the effective date of those changes in ASU 2011-05 that relate to the presentation of reclassification adjustments. We adopted these pronouncements in the first quarter of 2012, and it did not effect on our financial position or results of operations but impacted the way we present comprehensive income.

4. Secured Line of Credit with Quest Diagnostics Incorporated

On July 22, 2005, in connection with our Strategic Alliance Agreement with Quest Diagnostics (as amended, the Strategic Alliance Agreement), Quest Diagnostics provided us with a $10,000,000 secured line of credit, which was collateralized by certain of our intellectual property, used only for payment of certain costs and expenses directly related to developing and commercializing up to three diagnostic tests from our product pipeline (the Strategic Alliance). Under the terms of this secured line of credit, the interest rate is prime rate plus 0.5%, payable monthly. In the event of default on any principal or interest payment, the interest rate is increased to prime plus 2.0%. This secured line of credit also contains provisions for Quest Diagnostics to forgive portions of the amounts borrowed that correspond to our achievement of certain milestones related to development, regulatory approval and commercialization of certain diagnostic tests. The amounts to be forgiven and the corresponding milestones we must achieve are:

(i) $1,000,000 for each application that allows a licensed laboratory test to be commercialized, with a maximum of three applications for $3,000,000;

(ii) $3,000,000 for the earlier of the FDA clearance of the first diagnostic test kit or commercialization of the first diagnostic test kit; and

(iii) $2,000,000 upon each FDA clearance of up to two subsequent diagnostic test kits but no later than the first commercialization of each such diagnostic test kit, with a maximum forgiveness of $4,000,000 for two diagnostic test kits.

If not otherwise forgiven, the principal amount outstanding and any unpaid interest of this secured line of credit will become due and payable on October 7, 2012.

We achieved the milestone for FDA clearance of the first diagnostic test kit when OVA1 was cleared by the FDA in September 2009 and the principal on the secured line of credit was reduced by $3,000,000 to $7,000,000. The outstanding principal balance of this secured line of credit was $7,000,000 at June 30, 2012 and December 31, 2011. We are currently in discussions with Quest Diagnostics regarding the achievement of an additional $1,000,000 forgiveness milestone related to OVA1 under the terms of the Strategic Alliance Agreement. However, Quest Diagnostics has not acknowledged that such milestone has been achieved.

5. Commitments and Contingencies

In June 2010, we entered into non-cancelable facility leases for facilities located in Austin, Texas through May 2012 and Mountain View, California through August 2012. The combined annual base rent for these facilities is $129,000 per year, prorated for partial years. In March 2012, we amended the Austin, Texas lease on the same terms and extended the term to May 31, 2013. On July 5, 2012, we terminated our Mountain View, California lease and exited the facility without incurring any early termination costs or penalties. The annual base rent for our Austin, Texas facility is $94,000 per year.

Contingent Liabilities

Molecular Analytical Systems, Inc. Litigation

On July 9, 2007, Molecular Analytical Systems (MAS) filed a lawsuit in the Superior Court of California for the County of Santa Clara (Superior Court) naming Vermillion and Bio-Rad Laboratories, Inc. (Bio-Rad) as defendants (the State Court lawsuit). In connection with the State Court lawsuit, MAS sought an unspecified amount of damages and alleged, among other things, that we breached our license agreement with MAS relating to SELDI technology by entering into a sublicense agreement with Bio-Rad. We filed our general denial and affirmative defenses on April 1, 2008. The State Court lawsuit was automatically stayed when we filed a Voluntary Petition for Relief under Chapter 11 in the Bankruptcy Court on March 30, 2009. MAS filed a proof of claim in the Bankruptcy Court on July 15, 2009. The proof of claim mirrored the State Court lawsuit, alleging that we breached our license agreement with MAS by transferring certain technologies to Bio-Rad without

obtaining MAS s consent.

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MAS listed the value of its claim as in excess of $5,000,000. On December 28, 2009, we objected to MAS s Proof of Claim in the Bankruptcy Court. On January 7, 2010, the Bankruptcy Court confirmed our Plan of Reorganization. After the Plan of Reorganization was confirmed, MAS filed a motion with the Bankruptcy Court requesting that it abstain from hearing its proof of claim and that it grant MAS relief from the automatic stay so that MAS could proceed with the State Court lawsuit in California. Over our objection, the Bankruptcy Court granted that motion on March 16, 2010. Thereafter, the Superior Court ordered that the dispute be arbitrated before the Judicial Arbitration and Mediation Service (JAMS). MAS filed its demand for arbitration on September 15, 2010. The demand did not include any additional detail regarding MAS s claims and attached the same complaint for unspecified damages that MAS filed in the Superior Court in 2007. The parties thereafter conducted discovery, and the arbitration hearing commenced on September 21, 2011. Both sides presented evidence over five hearing days ending on October 4, 2011. The parties completed post-hearing briefing on November 9, 2011 and presented closing arguments on November 11, 2011. On February 23, 2012, an interim arbitration award was issued by the Arbitrator. In the interim arbitration award, the Arbitrator denied MAS s claim for breach of the license agreement as well as several other of MAS s claims. The Arbitrator found that MAS was entitled to an accounting concerning our 2% royalty obligation to MAS either through February 21, 2013 or until cumulative royalty payments reach $10 million, whichever comes first, and ordered that such royalties should be based on total GAAP revenues less revenues attributable to certain excluded entities, not just SELDI-related revenues. Subsequently, the parties agreed to resolve (i) any and all remaining royalty obligations owed to MAS from us and (ii) any and all claims for fees and costs that we had against MAS in return for Vermillion making a one-time payment to MAS of $35,000. We submitted to JAMS a mutual stipulation consistent with that agreement and the Arbitrator entered a final arbitration award incorporating that stipulation on May 21, 2012. At our request, the Superior Court (i) confirmed the final arbitration award and (ii) entered the final arbitration award as the final judgment in this case on July 26, 2012.

Bio-Rad Laboratories, Inc. Matters

On November 13, 2006, we completed the Instrument Business Sale to Bio-Rad. The Instrument Business Sale included the SELDI technology, ProteinChip arrays and accompanying software. Pursuant to the terms of the sales agreement, the total sales price was $20,000,000, of which $16,000,000 was paid by Bio-Rad to us at the closing of the transaction on November 13, 2006. A total of $4,000,000 was held back from the sales proceeds contingent upon our meeting certain obligations, of which $2,000,000 was subsequently paid to us in fiscal 2007 upon the issuance by the United States Patent and Trademark Office (USPTO) of a reexamination certificate for United States Patent No. 6,734,022.

In connection with the Instrument Business Sale, we entered into a letter agreement with Bio-Rad pursuant to which we agreed to indemnify Bio-Rad and its subsidiaries with respect to certain payments made by Bio-Rad in connection with the termination of employees of its former subsidiary in the United Kingdom in the six-month period immediately following the Instrument Business Sale. On May 4, 2007, Bio-Rad delivered a claim for indemnification under the agreement for $307,000, which was paid out of the $2,000,000 held in escrow. From the amounts held back and interest thereon, $1,830,000 was being held in escrow as of March 31, 2012 to serve as security for us to fulfill certain obligations.

In August 2009, Bio-Rad also filed a proof of claim in the bankruptcy case for indemnification of the MAS lawsuit. Management has subsequently received a final arbitration ruling from JAMS and settled the MAS claim. At our request, the Superior Court (i) confirmed the final arbitration award and (ii) entered the final arbitration award as the final judgment in this case on July 26, 2012. Thus, we believe that the possibility of any material loss from the indemnification of the MAS lawsuit is remote.

In connection with the Instrument Business Sale, we also entered into a manufacture and supply agreement with Bio-Rad on November 13, 2006, whereby we agreed to purchase ProteinChip Systems and ProteinChip Arrays (collectively, the Research Tools Products) from Bio-Rad. Under the terms of the manufacture and supply agreement, we agreed to provide Bio-Rad quarterly, non-binding, twelve-month rolling forecasts setting forth our anticipated needs for Research Tools Products over the forecast period. We were permitted to provide revised forecasts as necessary to reflect changes in demand for the products, and Bio-Rad was required to use commercially reasonable efforts to supply amounts in excess of the applicable forecast. Either party was permitted to terminate the agreement for convenience upon 180 days prior written notice, or upon default if the other party failed to cure such default within 30 days after notice thereof. In a letter from us to Bio-Rad dated May 2, 2008, we exercised our right to terminate the November 13, 2006 manufacture and supply agreement for convenience upon 180 days written notice. Consequently, termination of the agreement became effective on October 29, 2008. In October 2009, Bio-Rad filed a proof of claim in our bankruptcy case based on certain contract claims for approximately $1,000,000.

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In April 2012, we resolved the four contract claims made by Bio-Rad arising from the Instrument Business Sale. In exchange for a final settlement of these non-contingent claims, Bio-Rad received $700,000 from the escrow account established by the Company for the sale transaction, the Company was returned approximately $1,080,000 from the escrow account, and $50,000 remains in escrow as security for Bio-Rad s contingent indemnity claim in respect to the State Court lawsuit. We reversed $375,000 of general and administrative expense accrued in previous periods during the three months ended March 31, 2012; representing the accrued estimated liability in excess of the $700,000 settlement amount. We recognized the resulting gain on sale of instrument business of $1,780,000 from the release of the escrow account during the three months ended June 30, 2012.

Patrick Gillespie Litigation

On February 28, 2012, Robert Goggin III, a stockholder of Vermillion, filed for and obtained a writ of summons in Pennsylvania state court as a precursor to filing a lawsuit against Vermillion. Mr. Goggin discontinued his proceeding without prejudice on February 29, 2012. Thereafter, on March 12, 2012, Patrick Gillespie, a purported stockholder of Vermillion, represented by the same counsel as was Mr. Goggin, filed for and obtained a writ of summons in Pennsylvania state court as a precursor to filing a lawsuit against Vermillion. On March 22, 2012, Mr. Gillespie asked the court to issue letters rogatory to permit pre-suit discovery. Mr. Gillespie discontinued his proceeding without prejudice on April 30, 2012.

Robert Goggin and György Bessenyei Litigation

On May 25, 2012, György B. Bessenyei and Robert S. Goggin, III, both stockholders of Vermillion, filed a verified complaint in the Delaware Court of Chancery against Vermillion, each current member of our Board of Directors, and Gail S. Page. On June 1, 2012, Mr. Bessenyei and Mr. Goggin filed an amended verified complaint that was substantially similar to the verified complaint. The amended verified complaint contains the following causes of action: breach of fiduciary duty under two standards, declaratory relief, preliminary injunctive relief, and permanent injunctive relief. The allegations in the amended verified complaint challenge the recent adoption by the Board of Directors of an amendment to our bylaws eliminating the board seat formerly held by Ms. Page. As previously disclosed by Vermillion, on May 15, 2012, Ms. Page was terminated without cause as Vermillion s President and CEO, and, upon her termination, Ms. Page resigned her seat on the Board of Directors. For a variety of reasons, including an effort to streamline Vermillion s organization and extend its cash runway, the Board of Directors amended our bylaws to eliminate the vacant board seat, thereby reducing the size of the Board of Directors from seven to six members. This effort to streamline Vermillion s organization had begun in January 2012, when the Board of Directors amended the bylaws to eliminate an additional (eighth) seat on the Board of Directors. Mr. Bessenyei and Mr. Goggin claim that the Board of Directors decision to eliminate the seat on May 15, 2012 was a breach of its fiduciary duties, alleging that the Board of Directors actions were intended to prevent Mr. Bessenyei s and Mr. Goggin s nominees from both being able to be elected to the Board of Directors, and to entrench the Board of Directors current members. Among other things, Mr. Bessenyei and Mr. Goggin seek to have the Court declare null and void the May 15, 2012 amendment to the bylaws, and award to Mr. Bessenyei and Mr. Goggin the costs and fees incurred by them in the action. Vermillion and the individual defendants dispute the allegations and are vigorously defending the action.

The parties negotiated a scheduling order, which was approved on June 6, 2012, setting trial in this expedited action to start on July 31, 2012. On June 13, 2012, Vermillion and the other defendants filed an answer. The parties then engaged in extensive discovery, including document production, service of interrogatory responses, and the taking of depositions. On July 26, 2012, Vermillion and the other defendants filed a motion to dismiss the case. The Court has continued the trial date to consider full briefing and argument on the motion to dismiss prior to re-scheduling a trial, if any is necessary.

The case has been tendered to our insurance carrier for applicable coverage. General and administrative expenses for the three and six months ended June 30, 2012 are net of approximately $335,000 of legal fees incurred which are considered probable of being covered expenses under our insurance policy and are expected to be paid directly by the insurance carrier.

In addition, from time to time, the Company is involved in legal proceedings and regulatory proceedings arising out of our operations. We establish reserves for specific liabilities in connection with legal actions that we deem to be probable and estimable. Other than as disclosed above, we are not currently a party to any proceeding, the adverse outcome of which would have a material adverse effect on our financial position or results of operations.

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Gain on Litigation Settlement

On February 9, 2012, we entered into a Settlement Agreement with a third party related to losses on our short and long-term investments in previous years. Under the terms of the Settlement Agreement, the total settlement before legal fees and costs was $1,000,000; $535,000 was paid in March 2012 ($379,000 net received by the Company) and $465,000 is payable by September 1, 2012. We expect to receive approximately 70% of the settlement amount, net of legal and related costs, and are recording the net amount when realized as a component of non-operating income.

6. Comprehensive Loss

The components of accumulated other comprehensive loss as of June 30, 2012 and December 31, 2011 were as follows:

(in thousands)	June 30, 2012	December 31, 2011
Cumulative translation adjustment	$ (154)	$ (153)
	$ (154)	$ (153)

Comprehensive loss for the three and six months ended June 30, 2012 and 2011 was as follows:

(in thousands)	Three months ended June 30, 2012	Three months ended June 30, 2011	Six months ended June 30, 2012	Six months ended June 30, 2011
Net loss	$ (1,974)	$ (5,713)	$ (3,750)	$ (10,004)
Foreign currency translation adjustment	1	1	(1)	
Comprehensive loss	$ (1,973)	$ (5,712)	$ (3,751)	$ (10,004)

7. Employee Benefits Plans

2010 Stock Option Plan

On February 8, 2010, our Board of Directors approved the Vermillion, Inc. 2010 Stock Incentive Plan (the 2010 Plan). On December 3, 2010, the 2010 Plan was approved by our stockholders. The 2010 Plan is administered by the Compensation Committee of the Board. The Company s employees, directors, and consultants are eligible to receive awards under the 2010 Plan. The 2010 Plan permits the granting of a variety of awards, including stock options, share appreciation rights, restricted shares, restricted share units, unrestricted shares, deferred share units, performance and cash-settled awards, and dividend equivalent rights. The 2010 Plan provides for issuance of up to 1,322,983 shares of common stock, par value $0.001 per share under the 2010 Plan, subject to adjustment as provided in the 2010 Plan.

Stock-Based Compensation

Employee Stock-based Compensation Expense

During the three and six months ended June 30, 2012, we did not grant any restricted share units to our executive officers. During the three and six months ended June 30, 2011, we granted none and 177,000 restricted share units to our executive officers having a fair value of $724,000 and vesting on a quarterly basis over a three-year period beginning in March 2011. We distributed 12,750 and 25,499 shares of common stock to our executive officers during the three and six months ended June 30, 2012 per the terms of the restricted share unit grant.

During the three and six months ended June 30, 2012, we granted 197,500 restricted stock units to our Board of Directors as compensation for their services during 2012. This restricted stock has a fair value of $393,000 and vests 50% on June 1, 2012 and 25% each on September 1, 2012 and December 1, 2012. During the three and six months ended June 30, 2011, we granted none and 87,800 restricted stock units with a fair value of $347,000 to our Board of Directors as compensation for their services during 2011. We distributed 106,250 shares of common stock to our Board of Directors during the three months ended June 30, 2012 per the terms of the restricted share unit grant.

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We granted stock options to purchase 1,500 and 456,800 shares of common stock with an average exercise price of $2.20 and $1.62 during the three and six months ended June 30, 2012, respectively. We granted stock options to purchase 6,000 and 36,430 shares of common stock with an average exercise price of $5.16 and $4.30 during the three and six months ended June 30, 2011, respectively.

The allocation of employee stock-based compensation expense by functional area for the three and six months ended June 30, 2012 and 2011 was as follows:

(in thousands)	Three Months Ended June 30, 2012	2011	Six Months Ended June 30, 2012	2011
Research and development	$ 36	$ 203	$ 63	$ 409
Sales and marketing	57	39	93	82
General and administrative	301	1,050	369	2,053
Total	$ 394	$ 1,292	$ 525	$ 2,544

Non-employee Stock-based Compensation Expense

We recognize stock-based compensation expense related to stock options granted to non-employees and warrants granted to certain service providers as the stock options and warrants are earned. Certain of our former employees resigned their positions as employees and accepted positions as consultants, whereby their existing stock options continued to vest under the original terms of their stock option grants. We amortize the values attributable to these options over the service period. The unvested portion of these options and warrants was re-measured at each reporting period. We believe that the fair value of the stock options and warrants is more reliably measurable than the fair value of the services received.

The stock-based compensation expense will fluctuate as the fair market value of our common stock fluctuates. In connection with stock options and warrants relating to non-employees, we recorded non-employee stock-based compensation allocated by functional area for the three and six months ended June 30, 2012 and 2011 as follows:

(in thousands)	Three Months Ended June 30, 2012	2011	Six Months Ended June 30, 2012	2011
Research and development	$ 4	$	$ 11	$
Sales and marketing				
General and administrative	13		15	
Total	$ 17	$	$ 26	$

8. Common Stock

Common Stock Warrants

At June 30, 2012 and 2011, we had warrants outstanding to purchase 195,012 shares of common stock that are subject to fair value measurement on a recurring basis. These warrants expire in August 2012. The fair value of these common stock warrants for the three and six months ended June 30, 2012 and 2011 was determined using a Black-Scholes valuation model with Level 3 inputs.

For the three and six months ended June 30, 2012, there was no income relating to changes in fair value of the common stock warrant liabilities. For the three and six months ended June 30, 2011, income relating to changes in fair value of the common stock warrant liabilities totaled $35,000 and $342,000, respectively. The following table is a reconciliation of the warrant liability measured at fair value using Level 3 inputs for the three and six months ended June 30, 2012 and 2011:

(in thousands)	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
Balance at beginning of period	$	$ 71	$	$ 378
Change in fair value of common stock warrants		(35)		(342)
Balance at end of period	$	$ 36	$	$ 36

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On May 1, 2012, we issued warrants to purchase up to 21,000 shares of our common stock with an exercise price of $3.18 per share and an expiration date of April 30, 2014 to a vendor in exchange for services. The warrants vest pro-rata on a monthly basis over a six month period. The value of the warrants as determined by the Black-Sholes model was not significant and is classified as equity.

9. Loss Per Share

We calculate basic loss per share using the weighted average number of common shares outstanding during the period. Because we are in a net loss position, diluted loss per share is calculated using the weighted average number of common shares outstanding and excludes the effects of 1,641,591 and 1,710,741 potential common shares as of June 30, 2012 and 2011, respectively, that are antidilutive. Potential common shares include incremental shares of common stock issuable upon the exercise of outstanding stock options, common stock warrants, restricted stock awards and common shares issuable upon conversion of all convertible senior notes.

10. Related Party Transactions

Quest Diagnostics

Quest Diagnostics is a stockholder and the holder of our secured line of credit (see Note 4). Accounts receivable from Quest Diagnostics under the Strategic Alliance Agreement totaled $105,000 and $85,000 at June 30, 2012 and December 31, 2011, respectively.

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ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward Looking Statements

The Company has made statements in this Quarterly Report on Form 10-Q that are deemed forward-looking statements for purposes of the safe harbor provisions under the Private Securities Litigation Reform Act of 1995. The Company claims the protection of such safe harbor, and disclaims any intent or obligation to update any forward-looking statement. You can identify these statements by forward-looking words such as may, expect, intend, anticipate, believe, estimate, plan, could, should and continue or the negative of such terms or other simi forward-looking statements may also use different phrases. The Company has based these forward-looking statements on management s (for purposes of this Item 2, we , us or our) current expectations and projections about future events. Examples of forward-looking statements include the following statements:

projections of our future revenue, results of operations and financial condition;

anticipated efficacy of our products, product development activities and product innovations;

competition and consolidation in the markets in which we compete;

existing and future collaborations and partnerships;

the utility of biomarker discoveries;

our belief that biomarker discoveries may have diagnostic and/or therapeutic utility;

achieving milestones in product development, future regulatory or scientific submissions and presentations;

our plans to develop and commercialize diagnostic tests through our Strategic Alliance with Quest Diagnostics;

our ability to comply with applicable government regulations;

our ability to expand and protect our intellectual property portfolio;

anticipated future losses;

expected levels of expenditures;

expected market adoption of our diagnostic tests, including OVA1;

results of clinical trials, post-market studies required by FDA, and publications on OVA1;

our ability to obtain reimbursement from third party payers for our diagnostic tests, including OVA1;

forgiveness of the outstanding principal amounts of the secured line of credit by Quest Diagnostics;

recognition of revenue under our agreement with Quest Diagnostics;

the period of time for which our financial resources will be sufficient to enable us to maintain current and planned operations; and

market risk of our investments.

These statements are subject to significant risks and uncertainties, including those identified in Part II Item 1A, Risk Factors , that could cause actual results to differ materially from those projected in such forward-looking statements due to various factors, including our ability to generate sales after completing development of new diagnostic products; our ability to manage the Company s operating expenses and cash resources that is consistent with our plans; our ability to secure adequate funds on acceptable terms to execute our business plan; our ability to develop and commercialize diagnostic products using both our internal and external research and development resources; our ability to obtain market acceptance of OVA1 or future diagnostic products, including the risk that our products will not be competitive with products offered by other companies, or that users will not be entitled to receive adequate reimbursement for our products from third party payers such as private insurance companies and government insurance plans; our ability to successfully license or otherwise successfully partner with

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third parties to commercialize our products; our ability to obtain any regulatory approval for our future diagnostic products; and our ability to protect and promote our proprietary technologies. We believe it is important to communicate our expectations to our investors. However, there may be events in the future that we are not able to accurately predict or that we do not fully control that could cause actual results to differ materially from those expressed or implied in the Company s forward-looking statements.

Overview

We are dedicated to the discovery, development and commercialization of novel high-value diagnostic tests that help physicians diagnose, treat and improve outcomes for patients. Our tests are intended to help guide decisions regarding patient treatment, which may include decisions to refer patients to specialists, to perform additional testing, or to assist in the selection of therapy. A distinctive feature of our approach is to combine multiple biomarkers into a single, reportable index score that has higher diagnostic accuracy than its constituents.

We concentrate our development of novel diagnostic tests in the fields of oncology, vascular medicine and women s health, with an initial focus on ovarian cancer. We also intend to address clinical questions related to early disease detection, treatment response, monitoring of disease progression, prognosis and others through collaborations with leading academic and research institutions.

Our lead product, OVA1, was cleared by the FDA on September 11, 2009 and is currently being offered through Quest Diagnostics. OVA1 addresses a clear, unmet clinical need, namely the pre-surgical identification of women who are at high risk of having a malignant ovarian tumor. Numerous studies have documented the benefit of referral of these women to gynecologic oncologists for their initial surgery. Prior to the clearance of OVA1, no blood test had been cleared by the FDA for physicians to use in the pre-surgical management of ovarian adnexal masses. OVA1 is a qualitative serum test that utilizes five well-established biomarkers and proprietary FDA-cleared software to determine the likelihood of malignancy in women over age 18, with a pelvic mass for whom surgery is planned. OVA1 was developed through large clinical studies in collaboration with numerous academic medical centers encompassing over 2,500 clinical samples. OVA1 was fully validated in a prospective multi-center clinical trial encompassing 27 sites reflective of the diverse nature of the clinical centers at which ovarian adnexal masses are evaluated. The results of the clinical trial demonstrated that in a clinical cohort of 516 patients, OVA1, in conjunction with clinical evaluation, was able to identify 95.6% (154/161) of the malignant ovarian tumors overall, and to rule out malignancy with a negative predictive value of 94.6% (123/130). At the 2010 International Gynecologic Cancer Society Meeting, data were presented demonstrating the high sensitivity of OVA1 for epithelial ovarian cancers; OVA1 detected 95/96 epithelial ovarian cancer cases for a sensitivity of 99.0%, including 40/41 stage I and stage II epithelial ovarian cancers, for an overall sensitivity of 97.6% for early stage epithelial ovarian cancers, as compared to 65.9% for CA125 using the American Congress of Obstetricians and Gynecologists cutoffs. The improvement in sensitivity was even greater among premenopausal women; for OVA1, sensitivity for early stage epithelial ovarian cancer was 92.9% and for CA125, sensitivity was 35.7%. Overall, OVA1 detected 76% of malignancies missed by CA125, including all advanced stage malignancies. OVA1 is not indicated for use as a screening or stand-alone diagnostic assay.

In addition to OVA1, we have development programs in other clinical aspects of ovarian cancer as well as in peripheral arterial disease (PAD). In the field of PAD, we have identified candidate biomarkers that may help to identify individuals at high risk for a decreased ankle-brachial index score, which is indicative of the likely presence of PAD. In 2011, we completed an intended-use study to develop and validate a multi-marker algorithm for the assessment of individuals at risk for PAD.

The intended use study was a prospective, double-blinded multi-center study of approximately 1,000 subjects who met specific inclusion criteria for being at increased risk of having PAD, including smokers and diabetics age 50 or above and elderly age 70 or above. The study was conducted in conjunction with CPC Clinical Research, led by William R. Hiatt, MD, who is currently the Novartis Foundation endowed professor for cardiovascular research in the Department of Medicine, University of Colorado School of Medicine appointed in cardiology and a clinical focus in vascular medicine.

In October 2011, we announced positive top-line results from the intended use study for the detection of PAD. The goals of the study were to validate the markers described in earlier publications (*Circulation*,

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2007 and *Vascular Medicine*, 2008) and to develop and validate a biomarker panel applicable to the intended use population. A poster with study results was presented at the Society for Vascular Medicine s 23rd Annual Scientific Sessions, in Minneapolis, Minnesota in June 2012. In addition, a manuscript has been submitted for publication on the intended use study.

We also continue research aimed at expanding our ovarian cancer franchise. These efforts continue on two fronts. First, our testing of biomarkers for inclusion in ovarian cancer panels continues with our academic partners at The Johns Hopkins School of Medicine. These efforts have been aided by the intellectual property and samples acquired in December 2011 from Correlogic Systems, Inc., adding to our expanding portfolio of proprietary, patented biomarkers for ovarian cancer. Second, we conducted a productive focus group with over a dozen gynecologic oncologists during the SGO Annual Meeting held in Austin in March 2012. Their creative and insightful feedback will assist in assessing numerous options for new ovarian cancer product line extensions, targeting patient segments not included in current OVA1 claims. These are expected to feed our pipeline and expand the ovarian cancer franchise in which we already enjoy a leadership position.

Current and former academic and research institutions that we have or have had collaborations with include The Johns Hopkins School of Medicine; the University of Texas M.D. Anderson Cancer Center; University College London; the University of Texas Medical Branch; the Katholieke Universiteit Leuven; Clinic of Gynecology and Clinic of Oncology, Rigshospitalet, Copenhagen University Hospital; The Ohio State University Office of Sponsored Programs; Stanford University; and the University of Kentucky.

In January 2012, the Department of Defense added OVA1 to their Quest Diagnostics lab services contract, giving more than 45 military medical centers in the U.S. and numerous military medical clinics and facilities around the world access to OVA1 for the first time. Approximately 1.4 million uniformed service members now have access to OVA1 through the Quest Diagnostics lab services contract with the Department of Defense.

The Medicare contractor Highmark Medicare Services has been covering OVA1 in its reimbursement program since March 2010. There are currently twenty-seven independent BlueCross BlueShield plans, representing approximately 47 million lives, provide coverage for OVA1. In total, including Medicare, the Department of Defense and other private payers, approximately 95 million patients have access and coverage for OVA1. The Company and Quest Diagnostics are pursuing coverage from additional payers.

Under the terms of our Strategic Alliance Agreement with Quest Diagnostics, Quest Diagnostics is required to pay us a fixed payment of $50 per OVA1 performed, as well as 33% of its gross margin from revenue from performing OVA1 domestically, as that term is defined in the Strategic Alliance Agreement as amended. Quest Diagnostics is the exclusive clinical reference laboratory marketplace provider of OVA1 in its exclusive territory, which includes the US, Mexico, the United Kingdom and India through September 11, 2014. OVA1 was CE-marked in September 2010, a requirement for marketing the test in the European Union. OVA1 was launched in India in May 2011. Quest Diagnostics has the right to extend its exclusivity period for an additional year beyond September 11, 2014 on the same terms and conditions.

In January 2012, we announced a restructuring plan to streamline our organization and reduce our cash expenditures compared to 2011. This plan included eliminating the positions of Chief Financial Officer and Vice President of Corporate Strategy as well as a reduction in our Territory Development and sales management personnel.

On February 9, 2012, we entered into a Settlement Agreement with a third party related to losses on our short and long-term investments in previous years. Under the terms of the Settlement Agreement, the total settlement before legal fees and costs was $1,000,000; $535,000 was paid in March 2012 ($379,000 net received by the Company) and $465,000 is payable by September 1, 2012. We expect to receive approximately 70% of the settlement amount, net of legal and related costs, and are recording the net amount when realized as a component of non-operating income.

On March 6, 2012, the American Medical Association (AMA) Current Procedural Terminology (CPT®) Panel voted to approve an application for a Category I CPT code for OVA1, in a new class of tests called Multianalyte Assays with Algorithmic Analyses (MAAA). OVA1 was one of the first three Category I codes granted under this new category. The code, which comes into effect January 1, 2013, is expected to help standardize billing and streamline reimbursement of OVA1. We continue to work with the AMA and the Centers for Medicare and Medicaid Services on the CPT pricing schedule to support and fair and reasonable value for the OVA1 CPT code.

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On May 15, 2012, we announced our CEO succession plan beginning the process of identifying a successor to Gail S. Page, president and CEO. Our Board of Directors has formed a search committee, with the goal of completing the search by September 2012. As part of the leadership succession plan, Ms. Page resigned from the Board of Directors.

On June 15, 2012, we announced that results of the recent PAD multi-marker intended use study were presented at the Society for Vascular Medicine s 23rd Annual Scientific Sessions, in Minneapolis, Minnesota. This meeting hosted the nation s leading vascular medicine specialists, and included sessions on PAD guidelines, policy trends, and advances in the diagnosis and treatment of vascular diseases.

The poster presented to the meeting was authored by Professor of Medicine and Associate Director of Stanford Cardiovascular Institute Dr. John Cooke, together with colleagues at the University of Colorado and is entitled Results of a Biomarker Screen to Identify Peripheral Artery Disease. It reported the results of a multi-center clinical study involving 1,025 subjects, prospectively enrolled from the PAD at-risk population of subjects aged 70 or older, and diabetics and smokers 50 or older.

Different multi-marker algorithms were evaluated in patients with or without PAD, in comparison with the Framingham Risk Score (FRS). The multi-marker models were also assessed for their ability to identify PAD in patients below the high-risk FRS cutoff. The best model demonstrated a c-statistic of 0.73 and more importantly, identified 17 of 20 (85%) of patients missed by the FRS high-risk cutoff.

On July 30, 2012, we announced positive results from a new prospective, multi-center clinical study of our ovarian cancer diagnostic OVA1®. The study, referred to as OVA500, was led by Dr. Robert E. Bristow, director of Gynecologic Oncology Services at University of California Irvine Healthcare in Orange, California, and deputy editor of the journal Gynecologic Oncology.

The OVA500 study confirms and extends the pioneering work of Dr. Fred Ueland published last year. It was a prospective, multi-institutional, blinded study with a new cohort of 494 patients representing the intended use population for OVA1: female patients who were scheduled to undergo surgery for an adnexal mass, enrolled from non-gynecologic oncology practices via 27 study coordination centers.

All adnexal tumor types were included in the statistical analysis of test performance. The primary objective was to assess the performance of OVA1 in the intended use population with a focus on two particularly challenging subgroups: women with early-stage ovarian cancer, where approximately half of patients have a normal CA125 level, and pre-menopausal women, where the incidence of ovarian cancer is low and incidence of benign cysts is high.

Top-line data from the study are as follows:

Overall Performance of OVA1

Negative predictive value was reported at 98%

Sensitivity was reported at 96%

Specificity was reported at 51%

Performance in the Pre-menopausal Population

Sensitivity was reported at 94%

Performance for Early-Stage Ovarian Cancer (I and II)

Sensitivity was reported at 91%

OVA1 as a Risk Stratification Test (OVA1 score versus cutoff, independent of physician assessment)

Sensitivity was reported at 92% overall:

- 91% for early-stage disease
- 94% for pre-menopausal patients
- 91% for stage I and II in pre-menopausal women with a specificity of 61%

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Critical Accounting Policies and Significant Estimates

We have made no significant changes in our critical accounting policies and significant estimates from those disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2011, filed with the SEC on March 27, 2012, as amended by our Amendment No. 1 to Annual Report on Form 10-K/A filed with the SEC on April 27, 2012 and Amendment No. 2 to Annual Report on Form 10-K/A filed with the SEC on May 30, 2012.

Recent Accounting Pronouncements

Comprehensive Income In June 2011, the FASB issued new guidance on the presentation of comprehensive income. Specifically, the new guidance allows an entity to present components of net income and other comprehensive income in one continuous statement, referred to as the statement of comprehensive income, or in two separate, but consecutive statements. The new guidance eliminates the current option to report other comprehensive income and its components in the statement of changes in equity. While the new guidance changes the presentation of comprehensive income, there are no changes to the components that are recognized in net income or other comprehensive income under current accounting guidance. In December 2011, the FASB issued ASU No. 2011-12, Comprehensive Income (Topic 220) Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in ASU 2011-05, which defers the effective date of those changes in ASU 2011-05 that relate to the presentation of reclassification adjustments. We adopted these pronouncements in the first quarter of 2012, and it did not effect on our financial position or results of operations but impacted the way we present comprehensive income.

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Results of Operations - Three Months Ended June 30, 2012 Compared to Three Months Ended June 30, 2011

The selected summary financial and operating data of Vermillion for the three months ended June 30, 2012 and 2011 were as follows:

(dollars in thousands)	Three Months Ended June 30, 2012	2011	Increase (Decrease) Amount	%
Revenue:				
Product	$ 208	$ 191	$ 17	9
License	113	113		
Total revenue	321	304	17	6
Cost of revenue:				
Product	28	37	(9)	(24)
Total cost of revenue	28	37	(9)	(24)
Gross profit	293	267	26	10
Operating expenses:				
Research and development	1,002	1,631	(629)	(39)
Sales and marketing	1,122	1,503	(381)	(25)
General and administrative	1,840	2,730	(890)	(33)
Total operating expenses	3,964	5,864	(1,900)	(32)
Loss from operations	(3,671)	(5,597)	1,926	(34)
Interest income	8	21	(13)	(62)
Interest expense	(66)	(115)	49	(43)
Gain on sale of instrument business	1,780		1,780	
Change in fair value of warrants		35	(35)	
Reorganization items		(16)	16	
Other expense, net	(25)	(41)	16	(39)
Loss before income taxes	(1,974)	(5,713)	3,739	(65)
Income tax benefit (expense)				
Net loss	$ (1,974)	$ (5,713)	$ 3,739	(65)

Product Revenue. Product revenue was $208,000 for the three months ended June 30, 2012 compared to $191,000 for the same period in 2011. We recognized product revenue for the three months ended June 30, 2012 for the sale of OVA1 through Quest Diagnostics. Quest Diagnostics performed approximately 4,150 OVA1 tests during the three months ended June 30, 2012 compared to approximately 3,920 tests for the same period in 2011. Product revenue increased $17,000 for the three months ended June 30, 2012 compared to the same period in 2011 due to the increased volume of tests. We commercially launched OVA1 on March 9, 2010 and product revenue for the three months ended June 30, 2012 was substantially derived from domestic sales of OVA1.

Research and Development Expenses. Research and development expenses represent costs incurred to develop our technology and carry out clinical studies, and include personnel-related expenses, regulatory costs, reagents and supplies used in research and development laboratory work, infrastructure expenses, including allocated facility occupancy and information technology costs, contract services and other outside costs. Research and development expenses also include costs related to activities performed under contracts with our collaborators and strategic partners. Research and development expenses decreased by $629,000, or 39%, for the three months ended June 30, 2012 compared to the same period in 2011. This decrease was due primarily to a $410,000 decrease in clinical trial costs for the ongoing development of our ovarian cancer franchise and our PAD program as our PAD intended use study was completed in 2011. The clinical trial cost decrease was net of $524,000 of expenses, including start-up costs, for our OVA1 FDA post-marketing study that commenced during the three months ended June 30, 2012. In addition, stock compensation costs decreased $158,000 compared to the same period in 2011. We anticipate that research and development expenses will decrease in future periods as the ongoing costs of the FDA post-marketing study will be lower than the initial period which

included significant start-up costs.

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Sales and Marketing Expenses. Our sales and marketing expenses consist primarily of personnel-related expenses, education and promotional expenses, and infrastructure expenses, including allocated facility occupancy and information technology costs. These expenses include the costs of educating physicians, laboratory personnel and other healthcare professionals regarding OVA1. Sales and marketing expenses also include the costs of sponsoring continuing medical education, medical meeting participation and dissemination of scientific and health economic publications. Our personnel-related expenses include the cost of our territory development managers, the subject matter experts responsible for market development and the coordination of interactions with the Quest Diagnostics sales team. Sales and marketing expenses decreased by $381,000, or 25%, for the three months ended June 30, 2012 compared to the same period in 2011. The decrease was primarily due to $185,000 decrease in personnel and personnel-related expenses due to a lower headcount in 2012 than in 2011. In addition, advertising, medical education and trade show expenses decreased $168,000 compared to the same period in 2011 due to decreased print advertising compared to 2011 and fewer events being sponsored in 2012.

General and Administrative Expenses. General and administrative expenses consist primarily of personnel-related expenses, professional fees and other costs, including legal, finance and accounting expenses and other infrastructure expenses, including allocated facility occupancy and information technology costs. General and administrative expenses decreased by $890,000, or 33%, for the three months ended June 30, 2012 compared to the same period in 2011. The decrease was due to $741,000 in lower stock compensation expenses as there were no Bankruptcy-related stock compensation costs in 2012 (fully amortized at June 30, 2011). In addition, personnel and personnel-related costs decreased $205,000 due to lower headcount compared to the same period in 2011. Legal expense also decreased by $206,000 compared to the same period in 2011 as legal expense during the three months ended June 30, 2012 was recorded net of $335,000 of legal fees incurred which are anticipated to be covered and paid directly by our insurance carrier. These decreases were partially offset by a one-time charge for CEO severance of approximately $400,000 in the three months ended June 30, 2012.

Gain on sale of instrument business. Gain on sale of instrument business was $1,780,000 for the three months ended June 30, 2012. This gain was derived from the return in April 2012 of funds held in escrow from our 2006 sale of the instrument business to Bio-Rad.

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Results of Operations - Six Months Ended June 30, 2012 Compared to Six Months Ended June 30, 2011

The selected summary financial and operating data of Vermillion for the six months ended June 30, 2012 and 2011 were as follows:

(dollars in thousands)	Six Months Ended June 30, 2012	2011	Increase (Decrease) Amount	%
Revenue:				
Product	$ 406	$ 508	$ (102)	(20)
License	227	227		
Total revenue	633	735	(102)	(14)
Cost of revenue:				
Product	66	79	(13)	(16)
Total cost of revenue	66	79	(13)	(16)
Gross profit	567	656	(89)	(14)
Operating expenses:				
Research and development	1,454	2,849	(1,395)	(49)
Sales and marketing	2,640	2,821	(181)	(6)
General and administrative	2,308	5,030	(2,722)	(54)
Total operating expenses	6,402	10,700	(4,298)	(40)
Loss from operations	(5,835)	(10,044)	4,209	(42)
Interest income	16	37	(21)	(57)
Interest expense	(131)	(230)	99	(43)
Gain on sale of instrument business	1,780		1,780	
Gain on litigation settlement, net	379		379	
Change in fair value of warrants		342	(342)	
Reorganization items	88	(32)	120	(375)
Other income (expense), net	(47)	(77)	30	(39)
Loss before income taxes	(3,750)	(10,004)	6,254	(63)
Income tax benefit (expense)				
Net loss	$ (3,750)	$ (10,004)	$ 6,254	(63)

Product Revenue. Product revenue was $406,000 for the six months ended June 30, 2012 compared to $508,000 for the same period in 2011. We recognized product revenue for the six months ended June 30, 2012 for the sale of OVA1 through Quest Diagnostics. Quest Diagnostics performed approximately 8,102 OVA1 tests during the six months ended June 30, 2012 compared to approximately 7,000 tests for the same period in 2011. Product revenue decreased $102,000 for the six months ended June 30, 2012 compared to the same period in 2011 as the first quarter of 2011 included recognition of $160,000 of deferred revenue related to 2010 upon receipt of an annual royalty report from Quest Diagnostics. This decrease was partially offset by revenue from the increased volume of tests in 2012 compared to 2011. We commercially launched OVA1 on March 9, 2010 and product revenue for the six months ended June 30, 2012 was substantially derived from domestic sales of OVA1.

Research and Development Expenses. Research and development expenses represent costs incurred to develop our technology and carry out clinical studies, and include personnel-related expenses, regulatory costs, reagents and supplies used in research and development laboratory work, infrastructure expenses, including allocated facility occupancy and information technology costs, contract services and other outside costs. Research and development expenses also include costs related to activities performed under contracts with our collaborators and strategic partners. Research and development expenses decreased by $1,395,000, or 49%, for the six months ended June 30, 2012 compared to the same period in 2011. This decrease was due primarily to a $1,034,000 decrease in clinical trial costs for the ongoing development of our ovarian cancer franchise and our PAD program as our PAD intended use study was completed in 2011. The clinical trial cost decrease was net of expenses for our OVA1 FDA post-marketing study that commenced during the three months ended June 30, 2012. In addition, stock

compensation costs decreased $329,000 compared to the same period in 2011.

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Sales and Marketing Expenses. Our sales and marketing expenses consist primarily of personnel-related expenses, education and promotional expenses, and infrastructure expenses, including allocated facility occupancy and information technology costs. These expenses include the costs of educating physicians, laboratory personnel and other healthcare professionals regarding OVA1. Sales and marketing expenses also include the costs of sponsoring continuing medical education, medical meeting participation and dissemination of scientific and health economic publications. Our personnel-related expenses include the cost of our territory development managers, the subject matter experts responsible for market development and the coordination of interactions with the Quest Diagnostics sales team. Sales and marketing expenses decreased by $181,000, or 6%, for the six months ended June 30, 2012 compared to the same period in 2011 due primarily to lower personnel and personnel-related expenses related to lower headcount in 2012 than in 2011.

General and Administrative Expenses. General and administrative expenses consist primarily of personnel-related expenses, professional fees and other costs, including legal, finance and accounting expenses and other infrastructure expenses, including allocated facility occupancy and information technology costs. General and administrative expenses decreased by $2,722,000, or 54%, for the six months ended June 30, 2012 compared to the same period in 2011. The decrease was due to $1,674,000 in lower stock compensation expenses as there were no Bankruptcy-related stock compensation costs in 2012 (fully amortized at June 30, 2011). Personnel and personnel-related expenses also decreased $522,000 due to the departure of our Chief Financial Officer and Vice President of Corporate Strategy. In addition, the six months ended June 30, 2012 included a one-time reversal of $375,000 of amounts previously accrued for the Bio-Rad claims and audit, tax and legal fees decreased $535,000 compared to the same period in 2011 due to a decrease in overall activity and as 2012 legal expenses were recorded net of $335,000 of expenses incurred which are anticipated to be covered and paid directly by our insurance carrier. These decreases were partially offset by a one-time charge for CEO severance of approximately $400,000 in the six months ended June 30, 2012.

Interest expense. Interest expense decreased by $99,000, or 43%, for the six months ended June 30, 2012 compared to the same period in 2011 as we paid off $5,000,000 of our 7.00% Senior Convertible Notes upon maturity in September 2011.

Gain on sale of instrument business. Gain on sale of instrument business was $1,780,000 for the six months ended June 30, 2012. This gain was derived from the return in April 2012 of funds held in escrow from our 2006 sale of the instrument business to Bio-Rad.

Gain on litigation settlement, net. On February 9, 2012, we entered into a Settlement Agreement with a third party related to losses on our short and long-term investments in previous years. Under the terms of the Settlement Agreement, the total settlement was $1,000,000; $535,000 ($379,000 net after legal fees and costs) was paid in March 2012 and $465,000 is payable by September 1, 2012. The gain on litigation settlement represents the net proceeds received from the March 2012 payment.

Change in fair value of warrants. There was no change in fair value of warrants for the six months ended June 30, 2012 compared to $342,000 for the same period in 2011. This decrease of $342,000 was due primarily to the relative decrease in the Company s stock price during 2011.

Reorganization items. Reorganization items were income of $88,000 for the six months ended June 30, 2012 compared to expense of $32,000 for the same period in 2011. The increase was due to the one-time recognition of $103,000 in claims adjustments upon the formal closure of our Bankruptcy Filing in January 2012.

Liquidity and Capital Resources

On March 9, 2010, we commercially launched OVA1. We will continue to expend resources to develop the new and emerging market for OVA1 and in developing additional diagnostic tests.

On February 18, 2011, we completed an underwritten follow-on public offering of our common stock for net proceeds of $20,206,000 after deducting underwriting discounts and offering expenses.

We have incurred significant net losses and negative cash flows from operations since inception. At June 30, 2012, we had an accumulated deficit of $320,049,000 and stockholders equity of $7,165,000. On June 30, 2012, we had $18,290,000 of cash and cash equivalents and $10,756,000 of current liabilities including $7,000,000 principal amount under a secured line of credit from Quest Diagnostics due and payable on October 7, 2012.

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We expect cash for OVA1 from Quest Diagnostics to be our only material, recurring source of cash in 2012. In order to continue our operations as currently planned through 2013 and beyond, we will need to raise additional capital. Given the above conditions, there is substantial doubt about the Company s ability to continue as a going concern.

The consolidated financial statements have been prepared on a going concern basis and do not include any adjustments that might result from these uncertainties.

The successful achievement of our business objectives will require additional financing and therefore, we will need to raise additional capital or incur indebtedness to continue to fund our future operations. We will seek to raise capital through a variety of sources, which may include the public equity market, private equity financing, collaborative arrangements, licensing arrangements, and/or public or private debt.

Any additional equity financing may be dilutive to stockholders, and debt financing, if available, may involve restrictive covenants and be dilutive to stockholders. If we obtain additional funds through arrangements with collaborators or strategic partners, we may be required to relinquish our rights to certain technologies or products that we might otherwise seek to retain. Additional funding may not be available when needed or on terms acceptable to us. If we are unable to obtain additional capital, we may be required to delay, reduce the scope of or eliminate our sales and marketing and/or research and development activities.

Our future liquidity and capital requirements will depend upon many factors, including, among others:

- resources devoted to establish sales, marketing and distribution capabilities;
- the rate of product adoption by physicians and patients;
- our determination to acquire or invest in other products, technologies and businesses;
- the market price of our common stock as it affects the exercise of stock options; and
- the insurance payer community s acceptance of and reimbursement for OVA1.

Cash and cash equivalents as of June 30, 2012 and December 31, 2011, were $18,290,000 and $22,477,000, respectively. Working capital was $7,976,000 and $11,417,000 at June 30, 2012 and December 31, 2011, respectively.

Net cash used in operating activities was $5,958,000 for the six months ended June 30, 2012, resulting primarily from $3,750,000 net loss incurred as adjusted for completion of the 2006 gain on sale of instrument business to Bio-Rad of $1,780,000 and non-cash license revenues of $227,000, partially offset by $544,000 of stock-based compensation expense. Net cash used in operating activities also included $796,000 of cash used from changes in operating assets and liabilities mainly driven by the $1,040,000 decrease of accounts payable, accrued liabilities and other liabilities.

Net cash used in operating activities was $6,771,000 for the six months ended June 30, 2011, resulting primarily from the $10,004,000 net loss incurred as adjusted for a change in fair value of warrants and warrant exercises of $342,000 and non-cash license revenues of $227,000, partially offset by $2,544,000 of stock-based compensation expense. Net cash used in operating activities also included $1,224,000 of cash provided by changes in operating assets and liabilities mainly driven by an increase in accounts payable, accrued liabilities and other liabilities as well as the receipt of $489,000 under the Internal Revenue Service Qualifying Therapeutic Discovery Projects Grant Program for our ovarian cancer franchise and PAD program.

Net cash provided by investing activities for the six months ended June 30, 2012 was $1,766,000 due to the receipt of escrow funds upon completion of the 2006 sale of instrument business to Bio-Rad. Net cash used in investing activities for the six months ended June 30, 2011 was $93,000 due to the purchase of property and equipment.

Net cash provided by financing activities was $6,000 for the six months ended June 30, 2012, which resulted from net proceeds from issuance of common stock from exercise of stock options.

Net cash provided by financing activities was $20,234,000 for the six months ended June 30, 2011, which resulted from net proceeds in connection with our February 2011 follow-on public offering.

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We have significant net operating loss (NOL) credit carryforwards as of June 30, 2012 for which a full valuation allowance has been provided due to our history of operating losses. Our ability to use our net NOL credit carryforwards may be restricted due to ownership change limitations occurring in the past or that could occur in the future, as required by Section 382 of the Internal Revenue Code of 1986, as amended, as well as similar state provisions. These ownership changes may also limit the amount of NOL credit carryforwards that can be utilized annually to offset future taxable income and tax, respectively.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Per Item 305(e) of Regulation S-K, information is not required.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of disclosure controls and procedures.

Our senior management is responsible for establishing and maintaining a system of disclosure controls and procedures (as defined in Rule 13a-15e and 15d-15e under the Securities Exchange Act of 1934, as amended (the Exchange Act)) designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Exchange Act is accumulated and communicated to the issuer s management, including its principal executive officer or officers and principal financial officer or officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. Management, including our Chief Executive Officer and Chief Accounting Officer, performed an evaluation of our disclosure controls and procedures as defined under the Exchange Act as of June 30, 2012. Based on this evaluation, our Chief Executive Officer and Chief Accounting Officer have concluded that as of June 30, 2012, our disclosure controls and procedures, as defined in Rule 13a-15(e) and Rule 15(d)-15(e) under the Exchange Act, were effective.

Changes in internal controls over financial reporting.

There was no change in our internal control over financial reporting that occurred during the period covered by this Quarterly Report on Form 10-Q that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

MAS Litigation

On July 9, 2007, Molecular Analytical Systems (MAS) filed a lawsuit in the Superior Court of California for the County of Santa Clara (Superior Court) naming Vermillion and Bio-Rad as defendants (the State Court lawsuit). In connection with the State Court lawsuit, MAS sought an unspecified amount of damages and alleged, among other things, that we breached our license agreement with MAS relating to SELDI technology by entering into a sublicense agreement with Bio-Rad. We filed our general denial and affirmative defenses on April 1, 2008. The State Court lawsuit was automatically stayed when we filed a Voluntary Petition for Relief under Chapter 11 in the Bankruptcy Court on March 30, 2009. MAS filed a proof of claim in the Bankruptcy Court on July 15, 2009. The proof of claim mirrored the State Court lawsuit, alleging that we breached our license agreement with MAS by transferring certain technologies to Bio-Rad without obtaining MAS s consent. MAS listed the value of its claim as in excess of $5,000,000. On December 28, 2009, we objected to MAS s Proof of Claim in the Bankruptcy Court. On January 7, 2010, the Bankruptcy Court confirmed our Plan of Reorganization. After the Plan of Reorganization was confirmed, MAS filed a motion with the Bankruptcy Court requesting that it abstain from hearing its proof of claim and that it grant MAS relief from the automatic stay so that MAS could proceed with the State Court lawsuit in California. Over our objection, the Bankruptcy Court granted that motion on March 16, 2010. Thereafter, the Superior Court ordered that the dispute be arbitrated before the Judicial Arbitration and Mediation Service (JAMS). MAS filed its demand for arbitration on September 15, 2010. The demand did not include any additional detail regarding MAS s claims and attached the same complaint for unspecified damages that MAS filed in the Superior Court in 2007. The parties thereafter conducted discovery, and the arbitration hearing commenced on September 21, 2011. Both sides presented evidence over five hearing days ending on October 4, 2011. The parties completed post-hearing briefing on November 9, 2011 and presented closing arguments on November 11, 2011. On February 23, 2012, an interim arbitration award was issued by the Arbitrator. In the interim arbitration award, the Arbitrator denied MAS s claim for breach of the license agreement as well as several other of MAS s claims. The Arbitrator found that MAS was entitled to an accounting concerning our 2% royalty obligation to MAS either through February 21, 2013 or until cumulative royalty payments reach $10 million, whichever comes first, and ordered that such royalties should be based on total GAAP revenues less revenues attributable to certain excluded entities, not just SELDI-related revenues. Subsequently, the parties agreed to resolve (i) any and all remaining royalty obligations owed to MAS from us and (ii) any and all claims for fees and costs that we had against MAS in return for Vermillion making a one-time payment to MAS of $35,000. We submitted to JAMS a mutual stipulation consistent with that agreement and the Arbitrator entered a final arbitration award incorporating that stipulation on May 21, 2012. At our request, the Superior Court (i) confirmed the final arbitration award and (ii) entered the final arbitration award as the final judgment in this case on July 26, 2012.

Patrick Gillespie Litigation

On February 28, 2012, Robert Goggin III, a stockholder of Vermillion, filed for and obtained a writ of summons in Pennsylvania state court as a precursor to filing a lawsuit against Vermillion. Mr. Goggin discontinued his proceeding without prejudice on February 29, 2012. Thereafter, on March 12, 2012, Patrick Gillespie, a purported stockholder of Vermillion, represented by the same counsel as was Mr. Goggin, filed for and obtained a writ of summons in Pennsylvania state court as a precursor to filing a lawsuit against Vermillion. On March 22, 2012, Mr. Gillespie asked the court to issue letters rogatory to permit pre-suit discovery. Mr. Gillespie discontinued his proceeding without prejudice on April 30, 2012.

Robert Goggin and György Bessenyei Litigation

On May 25, 2012, György B. Bessenyei and Robert S. Goggin, III, both stockholders of Vermillion, filed a verified complaint in the Delaware Court of Chancery against Vermillion, each current member of our Board of Directors, and Gail S. Page. On June 1, 2012, Mr. Bessenyei and Mr. Goggin filed an amended verified complaint that was substantially similar to the verified complaint. The amended verified complaint contains the following causes of action: breach of fiduciary duty under two standards, declaratory relief, preliminary injunctive relief, and permanent injunctive relief. The allegations in the amended verified complaint challenge the recent adoption by the Board of Directors of an amendment to our bylaws eliminating the board seat formerly held by Ms. Page. As previously disclosed by Vermillion, on May 15, 2012, Ms. Page was terminated without cause as Vermillion s President and CEO, and, upon her termination, Ms. Page resigned her seat on the Board of Directors. For a variety

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of reasons, including an effort to streamline Vermillion s organization and extend its cash runway, the Board of Directors amended our bylaws to eliminate the vacant board seat, thereby reducing the size of the Board of Directors from seven to six members. This effort to streamline Vermillion s organization had begun in January 2012, when the Board of Directors amended the bylaws to eliminate an additional (eighth) seat on the Board of Directors. Mr. Bessenyei and Mr. Goggin claim that the Board of Directors decision to eliminate the seat on May 15, 2012 was a breach of its fiduciary duties, alleging that the Board of Directors actions were intended to prevent Mr. Bessenyei s and Mr. Goggin s nominees from both being able to be elected to the Board of Directors, and to entrench the Board of Directors current members. Among other things, Mr. Bessenyei and Mr. Goggin seek to have the Court declare null and void the May 15, 2012 amendment to the bylaws, and award to Mr. Bessenyei and Mr. Goggin the costs and fees incurred by them in the action. Vermillion and the individual defendants dispute the allegations and are vigorously defending the action.

The parties negotiated a scheduling order, which was approved on June 6, 2012, setting trial in this expedited action to start on July 31, 2012. On June 13, 2012, Vermillion and the other defendants filed an answer. The parties then engaged in extensive discovery, including document production, service of interrogatory responses, and the taking of depositions. On July 26, 2012, Vermillion and the other defendants filed a motion to dismiss the case. The Court has continued the trial date to consider full briefing and argument on the motion to dismiss prior to re-scheduling a trial, if any is necessary.

In addition, from time to time, we are involved in legal proceedings and regulatory proceedings arising out of our operations. We established reserves for specific liabilities in connection with legal actions that it deems to be probable and estimable. Other than as disclosed above, we are not currently a party to any proceeding, the adverse outcome of which would have a material adverse effect on our financial position or results of operations.

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Item 1A. Risk Factors

You should carefully consider the following risk factors and uncertainties together with all of the other information contained in this Quarterly Report on Form 10-Q, our Annual Report on Form 10-K for the year ended December 31, 2011, as amended, including the audited consolidated financial statements and accompanying notes, and our other filings from time to time with the SEC. The risks and uncertainties management describes below are the only material ones we face as of the date this Quarterly Report on Form 10-Q is initially filed with the SEC. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also adversely affect our business.

Risks Related to Our Business

If we are unable to increase the volume of OVA1 sales, our revenues, results of operations and financial condition would be adversely affected.

We have experienced significant operating losses each year since our inception and we expect to incur a net loss for fiscal year 2012. Our losses have resulted principally from costs incurred in research and development, sales and marketing, litigation, and general and administrative costs associated with our operations, bankruptcy under Chapter 11 and test development.

All of our revenues are currently generated from the number of OVA1 tests sold. If we are unable to increase the volume of OVA1 sales in the near future, our consolidated results of operations and financial condition would be adversely affected.

Our ability to commercialize OVA1 and other potential diagnostic tests is heavily dependent on our strategic alliance with Quest Diagnostics.

Quest Diagnostics has an exclusive license to offer OVA1 in the clinical reference laboratory marketplace in the US, Mexico, the United Kingdom and India through September 11, 2014, which may be extended for an additional year beyond September 11, 2014 at Quest Diagnostics option. In addition, Quest Diagnostics may obtain a similar exclusive license with respect to a test for PAD for a three-year period following clearance by the FDA, as well as with respect to one additional test developed by us, if and to the extent, Quest Diagnostics exercises its development option with respect to any such test on or before October 7, 2012. Consequently, our ability to generate revenue from these tests in these regions may be heavily dependent on Quest Diagnostics and its ability to market and offer these tests in its clinical laboratories.

We expect that for the foreseeable future nearly all of our revenue will be derived from Quest Diagnostics and will depend on the number of OVA1 tests performed by Quest Diagnostics and the reimbursement rate for performing those tests, which are outside of our control.

We expect that nearly all of our revenues for the foreseeable future will be derived through our strategic partnership with Quest Diagnostics and will be based on the number of OVA1 tests performed by Quest Diagnostics and the reimbursement rate received by Quest Diagnostics for those tests. In November 2010, we amended our Strategic Alliance Agreement with Quest Diagnostics to provide that we are to be paid $50 for each domestic OVA1 performed by Quest Diagnostics, as well as a 33% royalty of Quest Diagnostics gross margin from performing OVA1 by way of a monthly payment by Quest Diagnostics to us based on Quest Diagnostics average reimbursement per OVA1 in the previous month. The royalty portion of our revenue is subject to adjustment, either up or down, on an annual basis within 60 days of the end of each calendar year based on Quest Diagnostics actual reimbursement history for that calendar year. To the extent Quest Diagnostics is not reimbursed, is reimbursed at a lower than expected rate, or has reimbursement claims rejected, the royalty amounts owed to us would be reduced. Any amounts owed by us to Quest Diagnostics will be deducted against payments owed to us in future periods. The number of tests performed by Quest Diagnostics and the amount of reimbursements received by Quest Diagnostics in any given period will be largely outside of our control. If Quest Diagnostics were to perform fewer tests or receive less reimbursement per test than expected, it could have a material adverse effect on our revenue and results of operations.

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How we will recognize future revenue under the Quest Diagnostics Strategic Alliance Agreement remains uncertain and is likely to change, which could affect our revenue in future periods.

As described in more detail above, the November 2010 amendment to the Strategic Alliance agreement changed the structure and calculation of the payment to be received by us from Quest Diagnostics relating to OVA1. Given our limited commercialization history with OVA1 and with the new payment terms as well as our inability to know or control Quest Diagnostics reimbursement rates for OVA1, it may be difficult for us to estimate the amount of the future royalties and the size of any year-end adjustment. It is likely that we will be unable to recognize some or all of the revenue from the royalty payments to be received from Quest Diagnostics until we are better able to estimate the final royalty payment amounts and the magnitude and effect of the annual recalculation and adjustment mechanism. Accordingly, the amount of revenue we will be able to recognize in any quarter could vary significantly, and the method used to calculate that revenue could be subject to change.

Failures to reimburse OVA1 or changes in reimbursement rates by third party payers and variances in reimbursement rates could materially and adversely affect our revenues and could result in significant fluctuations in our revenues.

A significant portion of our revenues are dependent on the amount Quest Diagnostics receives from third party payers for performing OVA1. Insurance coverage and reimbursement rates for diagnostic tests are uncertain, subject to change and particularly volatile during the early stages of a newly commercialized diagnostic test. OVA1 was commercially launched in March of 2010. There remain questions as to what extent third party payers, like Medicare, Medicaid and private insurance companies will provide coverage for OVA1 and for which indications. Reimbursement rates, payment denials, appeals, and final payer determinations for OVA1 are largely out of our control, as Quest Diagnostics handles billing and reimbursement activities for all OVA1 tests performed. We are not able to predict any specific payer-level reimbursement data for OVA1 as such data is provided to us by Quest Diagnostics once a year as part of the annual revenue true-up process. We endeavor to maintain a dialogue with Quest Diagnostics regarding reimbursement issues as they arise. Quest Diagnostics has advised us that it has experienced volatility in the coverage and reimbursement of OVA1 due to contract negotiations with third party payers and implementation requirements and that the reimbursement amounts it has received from third party payers varies from payer to payer, and, in some cases, the variation could be material. Third party payers, including private insurance companies, as well as government payers such as Medicare and Medicaid, have increased their efforts to control the cost, utilization and delivery of healthcare services. These measures have resulted in reduced payment rates and decreased utilization for the diagnostic test industry. From time to time, the United States Congress has considered and implemented changes to the Medicare fee schedules in conjunction with budgetary legislation, and pricing for tests covered by Medicare is subject to change at any time. Reductions in the reimbursement rate of payers may occur in the future. Reductions in the price at which OVA1 is reimbursed could have a material adverse effect on our revenues. If we and Quest Diagnostics working collaboratively are unable to establish and maintain broad coverage and reimbursement for OVA1 or if third party payers change their coverage or reimbursement policies with respect to OVA1, our revenues could be materially and adversely affected.

We will need to raise additional capital in the future beyond what we have raised in a follow-on public offering on February 18, 2011, and if we are unable to secure adequate funds on terms acceptable to us, we may be unable to execute our business plan.

On February 18, 2011, we completed a follow-on public offering of our common stock in which we issued an additional 4 million shares and raised $20.2 million in net proceeds. However, in order to continue our operations as currently planned through 2013 and beyond, we will need to raise additional capital and thus there is substantial doubt regarding our ability to continue as a going concern. Our independent registered public accounting firm s report on our financial statements for the year ended December 31, 2011 includes an explanatory paragraph expressing substantial doubt about our ability to continue as a going concern, given our recurring net losses, negative cash flows from operations and debt outstanding due and payable in October 2012. We will seek to raise additional capital beyond what we have raised in the follow-on offering through the issuance of equity or debt securities, or a combination thereof, in the public or private markets, or through a collaborative arrangement or sale of assets. Additional financing opportunities may not be available to us, or if available, may not be on favorable terms. The availability of financing opportunities will depend, in part, on market conditions, and the outlook for our business. Any future issuance of equity securities or securities convertible into equity could result in substantial dilution to our stockholders, and the securities issued in such a financing may have rights, preferences or privileges senior to those of our common stock. If we raise additional funds by issuing debt, we may be subject to limitations on our operations, through debt covenants or other restrictions. If we obtain additional funds through arrangements with collaborators or strategic partners, we may be required to relinquish rights to certain technologies or products that we might otherwise seek to retain. If adequate and acceptable financing is not available to us at the time that we seek to raise additional capital, our ability to execute our business plan successfully may be negatively impacted.

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Leverage and debt service obligations may adversely affect our consolidated cash flows.

As of June 30, 2012, we had $7,000,000 outstanding under our secured line of credit with Quest Diagnostics.

Quest Diagnostics provided us with a $10,000,000 secured line of credit, which was forgivable based upon the achievement of certain milestones related to the development, regulatory approval and commercialization of certain diagnostic tests. As of our emergence from bankruptcy under the Bankruptcy Code, certain milestones had been met and the principal balance of the secured line of credit was reduced to $7,000,000. We are in discussions with Quest Diagnostics regarding the achievement of an additional $1,000,000 forgiveness milestone that we believe is owed to us relating to OVA1 under the terms of the Strategic Alliance Agreement. The $7,000,000 secured line of credit, which is due on October 7, 2012, is secured by certain of our assets, including our patents and other intellectual property. As a result of this indebtedness, we have principal and interest payment obligations to Quest Diagnostics. The degree to which we are leveraged could, among other things:

- make it difficult for us to obtain financing for working capital, acquisitions or other purposes on favorable terms, if at all;
- make us more vulnerable to industry downturns and competitive pressures; and
- limit our flexibility in planning for or reacting to changes in our business.

Our ability to meet our debt service obligations will depend upon our future performance, which will be subject to financial, business and other factors affecting our operations, many of which are beyond our control. If we cannot meet our debt service obligation, it would have a material adverse effect on our consolidated financial position.

We may not succeed in developing additional diagnostic products, and, even if we do succeed in developing additional diagnostic products, the diagnostic products may never achieve significant commercial market acceptance.

Our success depends on our ability to continue to develop and commercialize diagnostic products. There is considerable risk in developing diagnostic products based on our biomarker discovery efforts, as candidate biomarkers may fail to validate results in larger clinical studies or may not achieve acceptable levels of clinical accuracy. For example, markers being evaluated for our ovarian cancer franchise may not be validated in downstream pre-clinical or clinical studies, once we undertake and perform such studies. Although our PAD program in development achieved positive top-line results from an intended use clinical study, it is possible that these biomarkers, upon further analysis and clinical study, may not meet acceptance criteria for validation or regulatory clearance.

Clinical testing is expensive, takes many years to complete and can have an uncertain outcome. Clinical failure can occur at any stage of the testing. Clinical trials for our PAD program, our ovarian cancer franchise, and other future diagnostic tests may produce negative or inconclusive results, and we may decide, or regulators may require us, to conduct additional clinical and/or non-clinical testing on these tests. In addition, the results of our clinical trials may identify unexpected risks relative to safety or efficacy, which could complicate, delay or halt clinical trials, or result in the denial of regulatory approval by the FDA and other regulatory authorities.

If we do succeed in developing additional diagnostic tests with acceptable performance characteristics, we may not succeed in achieving significant commercial market acceptance for those tests. Our ability to successfully commercialize diagnostic products, including OVA1, will depend on several factors, including:

- our ability to convince the medical community of the safety and clinical efficacy of our products and their advantages over existing diagnostic products;
- our success in establishing new clinical practices or changing previous ones, such that utilization of the tests fail to meet established standards of care, medical guidelines and the like;

our ability to further establish business relationships with other diagnostic or laboratory companies that can assist in the commercialization of these products in the US and globally; and

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the scope and extent of the agreement by Medicare and third-party payers to provide full or partial reimbursement coverage for our products, which will affect patients willingness to pay for our products and will likely heavily influence physicians decisions to recommend or use our products.

These factors present obstacles to significant commercial acceptance of our existing and potential diagnostic products, for which we will have to spend substantial time and financial resources to overcome, and there is no guarantee that we will be successful in doing so. Our inability to do so successfully would prevent us from generating revenue from future diagnostic products.

The diagnostics market is competitive and we may not be able to compete successfully, which would adversely impact our ability to generate revenue.

Our principal competition currently comes from the many clinical options available to medical personnel involved in clinical decision making. For example, rather than ordering an OVA1 for a woman with an adnexal mass, obstetricians, gynecologists, and gynecologic oncologists may choose a different clinical option or none at all. If we are not able to convince clinicians that OVA1 provides significant improvement over current clinical practices, our ability to commercialize OVA1 would be adversely affected. Additionally, Fujirebio Diagnostics, Inc. announced in September 2011 that they have received clearance from the FDA to commercialize its Risk of Malignancy Algorithm (ROMA) test, a diagnostic test that uses the biomarkers CA125 and HE4 to identify masses with a high likelihood of malignancy. The ROMA test may be in direct competition with OVA1 and our revenues could be materially and adversely affected if and when the ROMA test is successfully commercialized. In addition, competitors such as Becton Dickinson, Arrayit Corporation, and Abbott Labs have publicly disclosed that they have been or are currently working on ovarian cancer diagnostic assays. Academic institutions periodically report new findings in ovarian cancer diagnostics that may have commercial value. Our failure to compete with any competitive diagnostic assay if and when commercialized could adversely affect our business.

We have priced OVA1 at a point that recognizes the value-added by its increased sensitivity for ovarian malignancy. If others develop a test that is viewed to be similar to OVA1 in efficacy but is priced at a lower point, we and/or our strategic partners may have to lower the price of OVA1 in order to effectively compete, which would impact our margins and potential for profitability.

The commercialization of our diagnostic tests may be affected adversely by changing FDA regulations, and any delay by or failure of the FDA to approve our diagnostic tests submitted to the FDA may adversely affect our consolidated revenues, results of operations and financial condition.

The FDA cleared OVA1 on September 11, 2009. Our activities related to diagnostic products are, or have the potential to be, subject to regulatory oversight by the FDA under provisions of the Federal Food, Drug and Cosmetic Act and regulations thereunder, including regulations governing the development, marketing, labeling, promotion, manufacturing and export of our products. Failure to comply with applicable requirements can lead to sanctions, including withdrawal of products from the market, recalls, refusal to authorize government contracts, product seizures, civil money penalties, injunctions and criminal prosecution.

The Food, Drug and Cosmetic Act requires that medical devices introduced to the United States market, unless exempted by regulation, be the subject of either a pre-market notification clearance, known as a 510(k) clearance or 510(k) de novo clearance, or a PMA. Some of our potential future clinical products may require a 510(k) or 510(k) de novo clearance, while others may require a PMA. With respect to devices reviewed through the 510(k) process, we may not market a device until an order is issued by the FDA finding our product to be substantially equivalent to a legally marketed device known as a predicate device. A 510(k) submission may involve the presentation of a substantial volume of data, including clinical data. The FDA may agree that the product is substantially equivalent to a predicate device and allow the product to be marketed in the United States. On the other hand, the FDA may determine that the device is not substantially equivalent and require a PMA, or require further information, such as additional test data, including data from clinical studies, before it is able to make a determination regarding substantial equivalence. By requesting additional information, the FDA can delay market introduction of our products. Delays in receipt of or failure to receive any necessary 510(k) clearance or PMA approval, or the imposition of stringent restrictions on the labeling and sales of our products, could have a material adverse effect on us. If the FDA indicates that a PMA is required for any of our potential future clinical products, the application will require extensive clinical studies, manufacturing information and likely review by a panel of experts outside the FDA. Clinical studies to support either a 510(k) submission or a PMA application would need to be

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conducted in accordance with FDA requirements. Failure to comply with FDA requirements could result in the FDA s refusal to accept the data or the imposition of regulatory sanctions. We cannot assure that any necessary 510(k) clearance or PMA approval will be granted on a timely basis, or at all. To the extent we seek FDA 510(k) clearance or FDA pre-market approval for other diagnostic tests, any delay by or failure of the FDA to clear or approve those diagnostic tests may adversely affect our consolidated revenues, results of operations and financial condition.

If we or our suppliers fail to comply with FDA requirements for production, marketing and postmarket monitoring of our products, we may not be able to market our products and services and may be subject to stringent penalties, product restrictions or recall; further improvements to our manufacturing operations may be required that could entail additional costs.

The commercialization of our products could be delayed, halted or prevented by applicable FDA regulations. If the FDA were to view any of our actions as non-compliant, it could initiate enforcement actions, such as a warning letter and possible imposition of penalties. In addition, analyte specific reagents that we may provide would be subject to a number of FDA requirements, including compliance with the FDA s Quality System Regulations (QSR), which establish extensive requirements for quality assurance and control as well as manufacturing procedures. Failure to comply with these regulations could result in enforcement actions for us or our potential suppliers. Adverse FDA actions in any of these areas could significantly increase our expenses and limit our revenue and profitability. We will need to undertake steps to maintain our operations in line with the FDA s QSR requirements. Some components of OVA1 are manufactured by other companies and we are required to maintain supply agreements with these companies. If these agreements are not satisfactory to the FDA, we will have to renegotiate these agreements. Any failure to do so would have an adverse effect on our ability to commercialize OVA1. Our suppliers manufacturing facilities will be subject to periodic regulatory inspections by the FDA and other federal and state regulatory agencies. If and when we begin commercializing and assembling our products by ourselves, our facilities will be subject to the same inspections. We or our suppliers may not satisfy such regulatory requirements, and any such failure to do so would have an adverse effect on our commercialization efforts.

If we fail to continue to develop our technologies, we may not be able to successfully foster adoption of our products and services or develop new product offerings.

Our technologies are new and complex, and are subject to change as new discoveries are made. New discoveries and advancements in the diagnostic field are essential if we are to foster the adoption of our product offerings. Development of these technologies remains a substantial risk to us due to various factors, including the scientific challenges involved, our ability to find and collaborate successfully with others working in the diagnostic field, and competing technologies, which may prove more successful than our technologies.

If we fail to maintain our rights to utilize intellectual property directed to diagnostic biomarkers, we may not be able to offer diagnostic tests using those biomarkers.

One aspect of our business plan is to develop diagnostic tests based on certain biomarkers, which we have the right to utilize through licenses with our academic collaborators, such as The Johns Hopkins School of Medicine, Stanford University, and the University of Texas M.D. Anderson Cancer Center. In some cases, our collaborators own the entire right to the biomarkers. In other cases, we co-own the biomarkers with our collaborators. If, for some reason, we lose our license to biomarkers owned entirely by our collaborators, we may not be able to use those biomarkers in diagnostic tests. If we lose our exclusive license to biomarkers co-owned by us and our collaborators, our collaborators may license their share of the intellectual property to a third party that may compete with us in offering diagnostic tests, which would materially adversely affect our consolidated revenues, results of operations and financial condition.

We have $7,000,000 outstanding from the secured line of credit provided by Quest Diagnostics. We will likely be responsible for full repayment of the secured line of credit on October 7, 2012.

As of June 30, 2012, we have $7,000,000 outstanding from the secured lined of credit in connection with the Strategic Alliance. Over a two-year period, we borrowed monthly increments of $417,000, totaling $10,000,000, and have paid all interest that was due. Funds from this secured line of credit were used for certain costs and expenses directly related to the Strategic Alliance, with forgiveness of the repayment obligations based upon our achievement of milestones related to the development, regulatory approval and commercialization of certain diagnostic tests. On

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October 7, 2009, the Strategic Alliance Agreement was amended to extend the term of the agreement to end on the earlier of (i) October 7, 2012 and (ii) the date on which Quest Diagnostics has commercially launched three licensed laboratory tests under the Strategic Alliance. On September 11, 2009, we announced our milestone achievement of clearing OVA1 with the FDA and, effective after the emergence from bankruptcy, reduced our principal obligations under the Amended Strategic Alliance Agreement to $7,000,000. We are in discussions with Quest Diagnostics regarding the achievement of an additional $1,000,000 forgiveness milestone related to OVA1 under the terms of the amended Strategic Alliance Agreement. However, Quest Diagnostics has not yet acknowledged that such milestone has been achieved. We will likely be responsible for the repayment of the outstanding principal amount and any unpaid interest on the secured line of credit on October 7, 2012, which could materially adversely affect our consolidated results of operations and financial condition.

If a competitor infringes on our proprietary rights, we may lose any competitive advantage we may have as a result of diversion of our time, enforcement costs and the loss of the exclusivity of our proprietary rights.

Our success depends in part on our ability to maintain and enforce our proprietary rights. We rely on a combination of patents, trademarks, copyrights and trade secrets to protect our technology and brand. We have submitted a number of patent applications covering biomarkers that may have diagnostic or therapeutic utility. Our patent applications may or may not result in additional patents being issued.

If competitors engage in activities that infringe on our proprietary rights, our focus will be diverted and we may incur significant costs in asserting our rights. We may not be successful in asserting our proprietary rights, which could result in our patents being held invalid or a court holding that the competitor is not infringing, either of which would harm our competitive position. We cannot be sure that competitors will not design around our patented technology.

We also rely upon the skills, knowledge and experience of our technical personnel. To help protect our rights, we require all employees and consultants to enter into confidentiality agreements that prohibit the disclosure of confidential information. These agreements may not provide adequate protection for our trade secrets, knowledge or other proprietary information in the event of any unauthorized use or disclosure. If any trade secret, knowledge or other technology not protected by a patent were to be disclosed to or independently developed by a competitor, it could have a material adverse effect on our business, consolidated results of operations and financial condition.

If others successfully assert their proprietary rights against us, we may be precluded from making and selling our products or we may be required to obtain licenses to use their technology.

Our success depends on avoiding infringing on the proprietary technologies of others. If a third party were to assert claims that we are violating their patents, we might incur substantial costs defending ourselves in lawsuits against charges of patent infringement or other unlawful use of another s proprietary technology. Any such lawsuit may not be decided in our favor, and if we are found liable, it may be subject to monetary damages or injunction against using the technology. We may also be required to obtain licenses under patents owned by third parties and such licenses may not be available to us on commercially reasonable terms, if at all.

Current and future litigation against us could be costly and time consuming to defend, and insurance coverage may not be adequate or available to cover the full amount of expenses and costs.

We are from time to time subject to legal proceedings and claims that arise in the ordinary course of business, such as claims brought by our clients in connection with commercial disputes, employment claims made by current or former employees, and claims brought by third parties alleging infringement on their intellectual property rights. In addition, we may bring claims against third parties for infringement on our intellectual property rights. Litigation may result in substantial costs and may divert our attention and resources, which may seriously harm our business, consolidated results of operations and financial condition. Although we have insurance coverage against which we may claim recovery of some of these expenses and costs, the amount of coverage may not be adequate to cover the full amount of expenses and costs and certain expenses and costs may be excluded from coverage under the terms of the policies we maintain.

An unfavorable judgment against us in any legal proceeding or claim could require us to pay monetary damages or could have a negative impact on our reputation. In addition, an unfavorable judgment in which the counterparty is awarded equitable relief, such as an injunction, could have an adverse impact on our licensing and sublicensing activities, which could harm our business, consolidated results of operations and consolidated financial condition.

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On July 9, 2007, Molecular Analytical Systems filed a lawsuit in the Superior Court of California for the County of Santa Clara (Superior Court) naming Vermillion and Bio-Rad as defendants (the State Court lawsuit). In connection with the State Court lawsuit, MAS sought an unspecified amount of damages and alleged, among other things, that we breached our license agreement with MAS relating to SELDI technology by entering into a sublicense agreement with Bio-Rad. We filed our general denial and affirmative defenses on April 1, 2008. The State Court lawsuit was automatically stayed when we filed a Voluntary Petition for Relief under Chapter 11 in the Bankruptcy Court on March 30, 2009. MAS filed a proof of claim in the Bankruptcy Court on July 15, 2009. The proof of claim mirrored the State Court lawsuit, alleging that we breached our license agreement with MAS by transferring certain technologies to Bio-Rad without obtaining MAS s consent. MAS listed the value of its claim as in excess of $5,000,000. On December 28, 2009, we objected to MAS s Proof of Claim in the Bankruptcy Court. On January 7, 2010, the Bankruptcy Court confirmed our Plan of Reorganization. After the Plan of Reorganization was confirmed, MAS filed a motion with the Bankruptcy Court requesting that it abstain from hearing its proof of claim and that it grant MAS relief from the automatic stay so that MAS could proceed with the State Court lawsuit in California. Over our objection, the Bankruptcy Court granted that motion on March 16, 2010. Thereafter, the Superior Court ordered that the dispute be arbitrated before the Judicial Arbitration and Mediation Service (JAMS). MAS filed its demand for arbitration on September 15, 2010. The demand did not include any additional detail regarding MAS s claims and attached the same complaint for unspecified damages that MAS filed in the Superior Court in 2007. The parties thereafter conducted discovery, and the arbitration hearing commenced on September 21, 2011. Both sides presented evidence over five hearing days ending on October 4, 2011. The parties completed post-hearing briefing on November 9, 2011 and presented closing arguments on November 11, 2011. On February 23, 2012, an interim arbitration award was issued by the Arbitrator. In the interim arbitration award, the Arbitrator denied MAS s claim for breach of the license agreement as well as several other of MAS s claims. The Arbitrator found that MAS was entitled to an accounting concerning our 2% royalty obligation to MAS either through February 21, 2013 or until cumulative royalty payments reach $10 million, whichever comes first, and ordered that such royalties should be based on total GAAP revenues less revenues attributable to certain excluded entities, not just SELDI-related revenues. Subsequently, the parties agreed to resolve (i) any and all remaining royalty obligations owed to MAS from us and (ii) any and all claims for fees and costs that we had against MAS in return for Vermillion making a one-time payment to MAS of $35,000. We submitted to JAMS a mutual stipulation consistent with that agreement and the Arbitrator entered a final arbitration award incorporating that stipulation on May 21, 2012. At our request, the Superior Court (i) confirmed the final arbitration award and (ii) entered the final arbitration award as the final judgment in this case on July 26, 2012.

On May 25, 2012, György B. Bessenyei and Robert S. Goggin, III, both stockholders of Vermillion, filed a verified complaint in the Delaware Court of Chancery against Vermillion, each current member of our Board of Directors, and Gail S. Page. On June 1, 2012, Mr. Bessenyei and Mr. Goggin filed an amended verified complaint that was substantially similar to the verified complaint. The amended verified complaint contains the following causes of action: breach of fiduciary duty under two standards, declaratory relief, preliminary injunctive relief, and permanent injunctive relief. The allegations in the amended verified complaint challenge the recent adoption by the Board of Directors of an amendment to our bylaws eliminating the board seat formerly held by Ms. Page. As previously disclosed by Vermillion, on May 15, 2012, Ms. Page was terminated without cause as Vermillion s President and CEO, and, upon her termination, Ms. Page resigned her seat on the Board of Directors. For a variety of reasons, including an effort to streamline Vermillion s organization and extend its cash runway, the Board of Directors amended our bylaws to eliminate the vacant board seat, thereby reducing the size of the Board of Directors from seven to six members. This effort to streamline Vermillion s organization had begun in January 2012, when the Board of Directors amended the bylaws to eliminate an additional (eighth) seat on the Board of Directors. Mr. Bessenyei and Mr. Goggin claim that the Board of Directors decision to eliminate the seat on May 15, 2012 was a breach of its fiduciary duties, alleging that the Board of Directors actions were intended to prevent Mr. Bessenyei s and Mr. Goggin s nominees from both being able to be elected to the Board of Directors, and to entrench the Board of Directors current members. Among other things, Mr. Bessenyei and Mr. Goggin seek to have the Court declare null and void the May 15, 2012 amendment to the bylaws, and award to Mr. Bessenyei and Mr. Goggin the costs and fees incurred by them in the action. Vermillion and the individual defendants dispute the allegations and are vigorously defending the action.

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The parties negotiated a scheduling order, which was approved on June 6, 2012, setting trial in this expedited action to start on July 31, 2012. On June 13, 2012, Vermillion and the other defendants filed an answer. The parties then engaged in extensive discovery, including document production, service of interrogatory responses, and the taking of depositions. On July 26, 2012, Vermillion and the other defendants filed a motion to dismiss the case. The Court has continued the trial date to consider full briefing and argument on the motion to dismiss prior to re-scheduling a trial, if any is necessary.

Our coming transition to a new chief executive officer may limit our ability to effectively execute on our business plan.

On May 15, 2012, we announced our CEO succession plan, beginning the process of identifying a successor to Gail S. Page, our president and CEO. Our Board of Directors has formed a search committee with the goal of completing the search by September 2012. Our new CEO s experience with our management team and knowledge of our operations will likely be limited. While Ms. Page is expected to assist the new CEO in transitioning into the position, this leadership change may result in disruptions to our business or operations or otherwise limit the ability of our management team to effectively execute on our business plan, which could have an adverse effect on our business, financial condition, results of operations and stock price. In addition, while we are seeking a candidate who is well qualified and will function well as our CEO, there is no guarantee that he or she will be successful in this role. Our new CEO s failure to perform as expected may have a material adverse effect on our business, financial condition, results of operations and stock price.

Because our business is highly dependent on key executives and employees, our inability to recruit and retain these people including a new chief executive officer could hinder our business plans.

We are highly dependent on our executive officers and certain key employees. Our executive officers and key employees are employed at will by us, and we have announced our CEO transition plan. Any inability to engage new executive officers or key employees, particularly a new CEO, could impact operations or delay or curtail our research, development and commercialization objectives. To continue our research and product development efforts, in addition to a new CEO, we need people skilled in areas such as clinical operations, regulatory affairs and clinical diagnostics. Competition for qualified employees is intense.

If we lose the services of any senior executive officers or key employees, our ability to achieve our business objectives could be harmed, which in turn could adversely affect our business and operating results.

In addition, we rely upon stock incentive awards to employees, directors and consultants as part of their hiring and compensation packages to provide appropriate incentives for sustaining our financial and operating performance and leadership excellence, to align their interests with those of our stockholders and to encourage them to remain with us for long and productive careers. Our Board of Directors unanimously approved and adopted, subject to the approval of our stockholders at our next annual meeting of stockholders, an amended and restated 2010 Stock Incentive Plan to increase the number of shares of common stock authorized under our 2010 Stock Incentive Plan. If more shares, or not enough shares, are not authorized by our stockholders for grant under the 2010 Stock Incentive Plan, we will be significantly limited in our ability to grant equity awards to recruit new employees including a new CEO or to compensate existing employees, which would put us at a significant disadvantage to other companies that compete for workers in our industry. Accordingly, our ability to hire, retain, and motivate current and prospective employees would be harmed, the result of which could negatively impact our business and operating results.

Our diagnostic efforts may cause us to have significant product liability exposure.

The testing, manufacturing and marketing of medical diagnostic tests entail an inherent risk of product liability claims. Potential product liability claims may exceed the amount of our insurance coverage or may be excluded from coverage under the terms of the policy. Our existing insurance will have to be increased in the future if we are successful at introducing new diagnostic products and this will increase our costs. In the event that we are held liable for a claim or for damages exceeding the limits of our insurance coverage, we may be required to make substantial payments. This may have an adverse effect on our consolidated results of operations, financial condition and cash flows, and may increase the volatility of our common stock price.

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Business interruptions could limit our ability to operate our business.

Our operations, as well as those of the collaborators on which we depend, are vulnerable to damage or interruption from fire; natural disasters, including earthquakes; computer viruses; human error; power shortages; telecommunication failures; international acts of terror; and similar events. Although we have certain business continuity plans in place, we have not established a formal comprehensive disaster recovery plan, and our back-up operations and business interruption insurance may not be adequate to compensate it for losses we may suffer. A significant business interruption could result in losses or damages incurred by us and require us to cease or curtail our operations.

If we fail to maintain proper and effective internal controls, our ability to produce accurate and timely financial statements could be impaired, which could adversely affect our business, operating results, and financial condition.

We are required to comply with the management certification requirements of Section 404 of the Sarbanes-Oxley Act of 2002. We are required to report, among other things, control deficiencies that constitute a material weakness or changes in internal controls that, or that are reasonably likely to, materially affect internal controls over financial reporting. A material weakness is a deficiency or combination of deficiencies that results in a reasonable possibility that a material misstatement of the annual or interim consolidated financial statements will not be prevented or detected. If we fail to continue to comply with the requirements of Section 404, we might be subject to sanctions or investigation by regulatory authorities such as the SEC. If we fail to remedy any material weakness, our consolidated financial statements may be inaccurate, which could adversely affect our business, operating results, and financial condition.

Legislative actions resulting in higher compliance costs are likely to adversely affect our future consolidated results of operations, financial position and cash flows.

Compliance with laws, regulations and standards relating to corporate governance and public disclosure, including the Sarbanes-Oxley Act of 2002, and new regulations adopted by the SEC, are resulting in increased compliance costs. We, like all other public companies, are incurring expenses and diverting employees time in an effort to comply with Section 404 of the Sarbanes-Oxley Act of 2002. The SEC and other regulators have continued to adopt new rules and regulations and make additional changes to existing regulations that require our compliance. In July 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act, or the Dodd-Frank Act, was enacted. There are significant corporate governance and executive compensation related provisions in the Dodd-Frank Act that require the SEC to adopt additional rules and regulations in these areas. Stockholder activism, the current political environment and the current high level of government intervention and regulatory reform may lead to substantial new regulations and disclosure obligations. Compliance with these evolving standards will result in increased general and administrative expenses and may cause a diversion of our time and attention from revenue-generating activities to compliance activities.

Changes in healthcare policy including an excise tax on medical devices could increase our costs and impact sales of and reimbursement for our tests.

In March 2010, President Barack Obama signed the Patient Protection and Affordable Care Act, as amended by the Health Care and Education Affordability Reconciliation Act (collectively, the PPACA), which makes changes that are expected to significantly impact the pharmaceutical and medical device industries. Beginning in 2013, each medical device manufacturer, producer or importer will have to pay an excise tax in an amount equal to 2.3 percent of the price for which such manufacturer sells its medical devices. The PPACA also mandates a reduction in payments for clinical laboratory services paid under the Medicare Clinical Laboratory Fee Schedule of 1.75% for the years 2011 through 2015. This adjustment is in addition to a productivity adjustment to the Clinical Laboratory Fee Schedule. In addition to the PPACA, the impact of which cannot be predicted given its recent enactment and current lack of effective implementing regulations or interpretive guidance, a number of states are also contemplating significant reform of their healthcare policies. We cannot predict whether future healthcare initiatives will be implemented at the federal or state level, or the effect any future legislation or regulation will have on us. The taxes imposed by the new federal legislation may result in decreased profits to us, and lower reimbursements by payers for our tests, all of which may adversely affect our business.

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We are subject to environmental laws and potential exposure to environmental liabilities.

We are subject to various international, federal, state and local environmental laws and regulations that govern our operations, including the handling and disposal of non-hazardous and hazardous wastes, the recycling and treatment of electrical and electronic equipment, and emissions and discharges into the environment. Failure to comply with such laws and regulations could result in costs for corrective action, penalties or the imposition of other liabilities. We are also subject to laws and regulations that impose liability and clean-up responsibility for releases of hazardous substances into the environment. Under certain of these laws and regulations, a current or previous owner or operator of property may be liable for the costs to remediate hazardous substances or petroleum products on or from its property, without regard to whether the owner or operator knew of, or caused, the contamination, as well as incur liability to third parties affected by such contamination. The presence of, or failure to remediate properly, such substances could adversely affect the value and the ability to transfer or encumber such property. Based on currently available information, although there can be no assurance, we believe that such costs and liabilities have not had and will not have a material adverse impact on our consolidated results of operations.

Risks Related to Owning our Stock

The liquidity and trading volume of our common stock may be low.

The liquidity and trading volume of our common stock has at times been low in the past and may again be low in the future. If the liquidity and trading volume were to fall, this could impact the trading price of our shares and adversely affect our ability to issue stock and for holders to obtain liquidity in their shares should they desire to sell.

Our stock price has been, and may continue to be, highly volatile, and an investment in our stock could suffer a decline in value.

The trading price of our common stock has been highly volatile and could continue to be subject to wide fluctuations in price in response to various factors, many of which are beyond our control, including:

- failure to significantly increase revenue and volumes of OVA1;
- actual or anticipated period-to-period fluctuations in financial results;
- failure to achieve, or changes in, financial estimates by securities analysts;
- announcements or introductions of new products or services or technological innovations by us or our competitors;
- publicity regarding actual or potential discoveries of biomarkers by others;
- comments or opinions by securities analysts or stockholders;
- conditions or trends in the pharmaceutical, biotechnology and life science industries;
- announcements by us of significant acquisitions and divestitures, strategic partnerships, joint ventures or capital commitments;
- developments regarding our patents or other intellectual property or that of our competitors;

litigation or threat of litigation;

additions or departures of key personnel;

limited daily trading volume;

economic and other external factors, disasters or crises; and

our announcement of additional fund raisings.

In addition, the stock market in general and the market for diagnostic technology companies, in particular, have experienced significant price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of those companies. These broad market and industry factors may seriously harm the market price of our common stock, regardless of our operating performance. In the past, following periods of volatility in the market price of a company s securities, securities class action litigation has often been instituted. A securities class action suit against us could result in substantial costs, potential liabilities and the diversion of our attention and our resources.

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If we fail to meet all applicable requirements of The NASDAQ Capital Market and NASDAQ determines to delist our common stock, the market liquidity and market price of our common stock could decline, and our ability to access the capital markets could be negatively affected.

Trading of our common stock was transferred from The NASDAQ Global Market to The NASDAQ Capital Market on February 15, 2012. We made the request to transfer our listing to facilitate our continued compliance with the applicable requirements for continued listing on NASDAQ. In order to maintain the listing on The NASDAQ Capital Market, we must satisfy minimum financial and other requirements, including requirements that we maintain a minimum stockholder s equity of $2.5 million and a minimum bid price of $1 per share. If we fail to meet all applicable requirements of The NASDAQ Capital Market and NASDAQ determines to delist our common stock, the delisting could adversely affect the market liquidity of our common stock and adversely affect our ability to obtain financing for the continuation of our operations. This delisting could also impair the value of our investors investment.

Anti-takeover provisions in our charter, bylaws and stockholder rights plan and under Delaware law could make a third party acquisition of the Company difficult.

Our certificate of incorporation, bylaws and stockholder rights plan contain provisions that could make it more difficult for a third party to acquire us, even if doing so might be deemed beneficial by our stockholders. These provisions could limit the price that investors might be willing to pay in the future for shares of our common stock. We are also subject to certain provisions of Delaware law that could delay, deter or prevent a change in control of the Company. The rights issued pursuant to our stockholder rights plan will become exercisable the tenth day after a person or group announces acquisition of 15% or more of our common stock or announces commencement of a tender or exchange offer the consummation of which would result in ownership by the person or group of 15% or more of our common stock. If the rights become exercisable, the holders of the rights (other than the person acquiring 15% or more of our common stock) will be entitled to acquire, in exchange for the rights exercise price, shares of our common stock or shares of any company in which we are merged, with a value equal to twice the rights exercise price.

We could face adverse consequences as a result of the actions of activist stockholders.

Certain of our stockholders or parties affiliated with our stockholders are attempting to aggressively involve themselves in the governance and strategic direction of our Company above and apart from normal interactions between stockholders and management. Such activism, and any related negative publicity, could result in substantial costs that negatively impact our stock price and increase its volatility. In addition, such involvement could cause a diversion of the attention of our management and Board of Directors and create perceived uncertainties with existing and potential strategic partners impacting our ability to consummate potential transactions, collaborations or opportunities in furtherance of our strategic plan. In addition, such activism could make it more difficult to attract and retain qualified personnel, including a new CEO, customers and business partners, which could disrupt the growth of the market for OVA1, delay the development and commercialization of new tests and further adversely affect the trading price of our common stock and increase its volatility. In addition, the activists may have little or no experience in the clinical diagnostics industry or in public company oversight and governance, or they may seek to elect members to our Board of Directors with little or no experience in the clinical diagnostics industry or in public company oversight and governance, and the activists and any nominees may have a specific agenda different and apart from the majority of our stockholders. To the extent any such stockholders constitute a group, as used relating to Section 13 of the Exchange, by having any relationship, agreement, arrangement, affiliation or understanding among themselves, whether direct or indirect, oral or written, specific or informal, it could result in a trigger event under our stockholder rights plan, causing disruption and additional costs to the Company and its stockholders and increasing volatility in our stock price.

Because we do not intend to pay dividends, our stockholders will benefit from an investment in our common stock only if it appreciates in value.

We have never declared or paid any cash dividends on our common stock. We currently intend to retain our future earnings, if any, to finance the expansion of our business and do not expect to pay any cash dividends in the foreseeable future. As a result, the success of an investment in our common stock will depend entirely upon any future appreciation. There is no guarantee that our common stock will appreciate in value or even maintain the price at which our investors purchased their shares.

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We may need to sell additional shares of our common stock or other securities in the future to meet our capital requirements that could cause significant dilution.

On February 18, 2011, we completed a follow-on public offering of our common stock in which we issued an additional 4 million shares and raised $20.2 million in net proceeds. As of June 30, 2012, we had 15,040,913 shares of our common stock outstanding which excludes 1,224,078 shares of our common stock that were subject to outstanding options. Also, as of June 30, 2012, there were 89,251 shares of restricted stock awarded to certain executive officers pursuant to the 2010 Plan that were not vested. These shares vest ratably through March 2014. In addition, as of June 30, 2012, there were 91,250 shares of restricted stock awarded to our Board of Directors that will vest later in 2012.

The exercise or conversion of all or a portion of our outstanding options and warrants, and the vesting of our restricted stock, would dilute the ownership interests of our stockholders. Furthermore, future sales of substantial amounts of our common stock in the public market, or the perception that such sales are likely to occur, could affect prevailing trading prices of our common stock.

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Item 6. Exhibits

(a) The following exhibits are filed with this report as indicated below:

10.1	Settlement Agreement and Release, dated February 9, 2012, incorporated by reference from Exhibit 10.51 to the Amendment No. 2 to Annual Report on Form 10-K filed by Vermillion, Inc. on May 30, 2012.
10.2	Employment Agreement, dated as of April 4, 2012, by and between Vermillion, Inc. and Eric J. Schoen, incorporated by reference from Exhibit 10.1 to the Current Report on Form 8-K filed by Vermillion, Inc. on April 10, 2012.#
10.3	Employment Agreement, dated as of April 4, 2012, by and between Vermillion, Inc. and William Creech, incorporated by reference from Exhibit 10.2 to the Current Report on Form 8-K filed by Vermillion, Inc. on April 10, 2012.#
31.1	Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of the Chief Accounting Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of the Chief Executive Officer and Chief Accounting Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

Attached as Exhibit 101 to this report are documents formatted in XBRL (Extensible Business Reporting Language). Users of this data are advised that, pursuant to Rule 406T of Regulation S-T, the interactive data file is deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, is deemed not filed for purposes of Section 18 of the Exchange Act and is otherwise not subject to liability under these sections.

# Indicates management contract or compensatory plan.

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SIGNATURES

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

Vermillion, Inc.

Date: August 14, 2012

/s/ Gail S. Page
Gail S. Page

President and Chief Executive Officer

(Principal Executive Officer)

Date: August 14, 2012

/s/ Eric J. Schoen
Eric J. Schoen

Chief Accounting Officer

(Principal Financial Officer)