

NEOGENOMICS INC
Form 10-Q
May 13, 2013
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2013.

Or

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

For the transition period from _____ to _____

Commission File Number: 001-35756

NEOGENOMICS, INC.

(Exact name of registrant as specified in its charter)

Edgar Filing: NEOGENOMICS INC - Form 10-Q

Nevada
(State or other jurisdiction of
incorporation or organization)

74-2897368
(I.R.S. Employer
Identification No.)

12701 Commonwealth Drive, Suite 9, Fort Myers,

Florida
(Address of principal executive offices)

33913
(Zip Code)

(239) 768-0600

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company

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

As of May 6, 2013, the registrant had 48,704,038 shares of Common Stock, par value \$0.001 per share outstanding.

Table of Contents

TABLE OF CONTENTS

PART I FINANCIAL INFORMATION

Item 1.	<u>Financial Statements (unaudited)</u>	4
Item 2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	13
Item 3.	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	25
Item 4.	<u>Controls and Procedures</u>	25

PART II OTHER INFORMATION

Item 1.	<u>Legal Proceedings</u>	27
Item 1A.	<u>Risk Factors</u>	27
Item 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	27
Item 3.	<u>Defaults Upon Senior Securities</u>	27
Item 4.	<u>Mine Safety Disclosures</u>	27
Item 5.	<u>Other Information</u>	27
Item 6.	<u>Exhibits</u>	28
	<u>SIGNATURES</u>	29

Table of Contents

FORWARD-LOOKING STATEMENTS

The information in this Quarterly Report on Form 10-Q contains forward-looking statements and information within the meaning of Section 27A of the Securities Act of 1933, as amended (the Securities Act), and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act) relating to NeoGenomics, Inc., a Nevada corporation (the Parent or the Parent Company), and its subsidiary, NeoGenomics Laboratories, Inc., a Florida corporation (NEO , NeoGenomics Laboratories or the Subsidiary) (collectively referred to as we , us , our , NeoGenomics , or the Company), which are subject to the safe harbor created by those sections. These forward-looking statements include, but are not limited to, statements concerning our strategy, future operations, future financial position, future revenues, projected costs, prospects and plans and objectives of management. The words anticipates, believes, estimates, expects, intends, may, plans, projects, will, and other similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain these identifying words. We may not actually achieve the plans, intentions or expectations disclosed in our forward-looking statements and you should not place undue reliance on our forward-looking statements. These forward-looking statements involve known and unknown risks and uncertainties that could cause our actual results, performance or achievements to differ materially from those expressed or implied by the forward-looking statements, including, without limitation, the risks set forth in Part I, Item 1A, Risk Factors in our Annual Report on Form 10-K as filed with the Securities and Exchange Commission on February 21, 2013.

Forward-looking statements include, but are not limited to, statements about:

Our ability to implement our business strategy;

The expected reimbursement levels from governmental payers and private insurers;

The application, to our business and the services we provide, of existing laws, rules and regulations, including without limitation, Medicare laws, anti-kickback laws, Health Insurance Portability and Accountability Act of 1996 (HIPAA) regulations, state medical privacy laws, federal and state false claims laws and corporate practice of medicine laws;

Regulatory developments in the United States;

Our ability to maintain our license under the Clinical Laboratory Improvement Amendments of 1988 (CLIA);

Our ability to expand our operations and increase our market share;

Our ability to expand our service offerings by adding new testing capabilities;

Our ability to meet our future capital requirements;

The impact of internalization of testing by customers;

Our ability to compete with other diagnostic laboratories;

Our ability to hire and retain sufficient managerial, sales, clinical and other personnel to meet our needs;

Edgar Filing: NEOGENOMICS INC - Form 10-Q

Our ability to successfully scale our business, including expanding our facilities, our backup systems and infrastructure; and

The accuracy of our estimates regarding reimbursement, expenses, future revenues and capital requirements. Any forward-looking statement speaks only as of the date on which such statement is made, and the Company undertakes no obligation to update any forward-looking statement or statements to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of unanticipated events. New factors emerge from time to time and it is not possible for management to predict all of such factors, nor can it assess the impact of each such factor on the business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements.

Table of Contents**PART I FINANCIAL INFORMATION****Item 1. Financial Statements****NEOGENOMICS, INC.****CONSOLIDATED BALANCE SHEETS**

(in thousands, except share data)

(unaudited)

	March 31, 2013	December 31, 2012
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 4,628	\$ 1,868
Accounts receivable (net of allowance for doubtful accounts of \$3,615 and \$3,002 respectively)	15,628	14,034
Inventories	1,646	1,859
Other current assets	841	820
Total current assets	22,743	18,581
PROPERTY AND EQUIPMENT (net of accumulated depreciation of \$11,279 and \$10,289 respectively)	8,045	8,607
INTANGIBLE ASSETS (net of accumulated amortization of \$238 and \$182, respectively)	2,744	2,800
OTHER ASSETS	84	83
TOTAL ASSETS	\$ 33,616	\$ 30,071
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	\$ 2,925	\$ 3,611
Accrued compensation	1,889	2,808
Other accrued expenses and liabilities	662	669
Short-term portion of equipment capital leases	2,283	2,212
Revolving credit line	4,190	8,458
Total current liabilities	11,949	17,758
LONG TERM LIABILITIES		
Long-term portion of equipment capital leases	2,837	3,097
TOTAL LIABILITIES	14,786	20,855
Commitments		
STOCKHOLDERS' EQUITY		
Common stock, \$.001 par value, (100,000,000 shares authorized; 48,685,947 and 45,280,280 shares issued and outstanding at March 31, 2013 and December 31, 2012, respectively)	49	45

Edgar Filing: NEOGENOMICS INC - Form 10-Q

Additional paid-in capital	41,349	31,742
Accumulated deficit	(22,568)	(22,571)
Total stockholders' equity	18,830	9,216
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 33,616	\$ 30,071

See notes to unaudited consolidated financial statements.

Table of Contents**NEOGENOMICS, INC.****CONSOLIDATED STATEMENTS OF OPERATIONS****(in thousands, except per share amounts)****(unaudited)**

	For the Three Months Ended March 31,	
	2013	2012
NET REVENUE	\$ 15,657	\$ 15,160
COST OF REVENUE	8,411	8,016
GROSS MARGIN	7,246	7,144
OPERATING EXPENSES		
General and administrative	4,175	3,750
Research and development	835	497
Sales and marketing	1,931	2,036
Total operating expenses	6,941	6,283
INCOME FROM OPERATIONS	305	861
INTEREST INCOME (EXPENSE) - NET	(285)	(258)
INCOME BEFORE INCOME TAXES	20	603
INCOME TAXES	17	
NET INCOME	\$ 3	\$ 603
NET INCOME PER SHARE		
- Basic	\$ 0.00	\$ 0.01
- Diluted	\$ 0.00	\$ 0.01
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING		
- Basic	46,264	44,697
- Diluted	50,923	47,424

See notes to unaudited consolidated financial statements.

Table of Contents**NEOGENOMICS, INC.****CONSOLIDATED STATEMENTS OF CASH FLOWS****(in thousands)****(unaudited)**

	For the Three Months Ended March 31,	
	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 3	\$ 603
Adjustments to reconcile net income to net cash used in operating activities:		
Provision for bad debts	741	839
Amortization of intangibles	56	14
Depreciation of property and equipment	990	749
Amortization of debt issue costs	12	9
Stock-based compensation options	254	105
Stock-based compensation warrants and restricted stock	189	46
Changes in assets and liabilities, net:		
(Increase) decrease in accounts receivable, net of write-offs	(2,335)	(3,628)
(Increase) decrease in inventories	214	(109)
(Increase) decrease in other current assets	(35)	7
Increase (decrease) in accounts payable and other liabilities	(1,419)	300
NET CASH USED IN OPERATING ACTIVITIES	(1,330)	(1,065)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of intangible assets		(1,037)
Purchases of property and equipment	(239)	(277)
NET CASH USED IN INVESTING ACTIVITIES	(239)	(1,314)
CASH FLOWS FROM FINANCING ACTIVITIES		
Restricted cash		200
Advances (repayments) on credit facility, net	(4,268)	2,788
Repayments of capital leases	(570)	(555)
Issuance of common stock and warrants for cash, net of transaction costs	9,167	74
NET CASH PROVIDED BY FINANCING ACTIVITIES	4,329	2,507
NET INCREASE IN CASH AND CASH EQUIVALENTS	2,760	128
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	1,868	2,628
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 4,628	\$ 2,756
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid	\$ 274	\$ 250
Income taxes paid	\$ 17	\$

Edgar Filing: NEOGENOMICS INC - Form 10-Q

NON-CASH INVESTING AND FINANCING ACTIVITIES

Equipment leased under capital leases	\$	381	\$	1,174
Non-cash intangible asset purchase	\$		\$	1,945

See notes to unaudited consolidated financial statements.

Table of Contents

NEOGENOMICS, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

AS OF MARCH 31, 2013

NOTE A NATURE OF BUSINESS AND BASIS OF FINANCIAL STATEMENT PRESENTATION

Nature of Business

NeoGenomics, Inc., a Nevada corporation (the Parent or the Parent Company), and its subsidiary, NeoGenomics Laboratories, Inc., a Florida corporation (NeoGenomics Laboratories or the Subsidiary) (collectively referred to as we, us, our, NeoGenomics, or the Company), is a certified high complexity clinical laboratory in accordance with the federal government's Clinical Laboratory Improvement Act, as amended (CLIA), and is dedicated to the delivery of clinical diagnostic services to pathologists, oncologists, urologists, hospitals, and other laboratories throughout the United States.

Basis of Presentation

The accompanying interim consolidated financial statements are unaudited and have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information. These financial statements include the accounts of the Parent and the Subsidiary. All intercompany transactions and balances have been eliminated in the accompanying financial statements.

Certain information and footnote disclosures normally included in the Company's annual audited consolidated financial statements and accompanying notes have been condensed or omitted in these interim financial statements. Accordingly, the unaudited consolidated financial statements included herein should be read in conjunction with the audited consolidated financial statements and accompanying notes included in the Company's annual report on Form 10-K for the year ended December 31, 2012, filed with the Securities and Exchange Commission on February 21, 2013.

The results of operations presented in this quarterly report on Form 10-Q are not necessarily indicative of the results of operations that may be expected for any future periods. In the opinion of management, these unaudited consolidated financial statements include all adjustments and accruals, consisting only of normal recurring adjustments that are necessary for a fair statement of the results of all interim periods reported herein.

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

NOTE B SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

The Company prepares its consolidated financial statements in conformity with GAAP. These principles require management to make estimates, judgments and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, together with amounts disclosed in the related notes to the consolidated financial statements. Actual results and outcomes may differ from management's estimates, judgments and assumptions. Significant estimates, judgments and assumptions used in these consolidated financial statements include, but are not limited to, those related to revenues, accounts receivable and related allowances, contingencies, useful lives and recovery of long-term assets, income taxes, and the fair value of stock-based compensation. These estimates, judgments, and assumptions are reviewed periodically and the effects of material revisions in estimates are reflected in the consolidated financial statements prospectively from the date of the change in estimate.

Table of Contents

Research and Development

Research and development (R&D) costs are expensed as incurred. R&D expenses consist of cash and equity compensation and benefits for R&D personnel, amortization of intangibles, related supplies, inventory and payment for samples to complete validation studies. These expenses were incurred to develop new genetic tests.

Intangible Assets

The Company's intangible assets are related to our license agreement with Health Discovery Corporation. The intangible assets were valued at fair value based as we acquired the assets in an arms-length transaction. We present intangible assets net of accumulated amortization in our financial statements. We have three classes of intangible assets and each class of intangible assets is amortized over its estimated service period from service date through the weighted average patent expiration date of each class of patents or the period of economic benefit. We continually review the estimated pattern in which the economic benefits will be consumed and adjust the amortization period and our pattern to match our estimate.

The Company evaluates the possible impairment of its intangibles assets under the provisions of FASB codification 350-30-35. The Company reviews the recoverability of its long-lived assets if events or changes in circumstances indicate the assets may be impaired. Evaluation of possible impairment is based on the Company's ability to recover the asset from the expected future pretax cash flows (undiscounted and without interest charges) of the related operations. If the expected undiscounted pretax cash flows are less than the carrying amount of such asset, an impairment loss is recognized for the difference between the estimated fair value and carrying amount of the asset. No impairment loss has been recognized as of March 31, 2013.

Concentrations of Credit Risk

Concentrations of credit risk with respect to revenue and accounts receivable are primarily limited to certain clients to whom the Company provides a significant volume of its services, and to specific payers of our services such as Medicare and individual insurance companies. The Company's client base consists of a large number of geographically dispersed clients diversified across various customer types. For the three months ended March 31, 2013, all of the affiliated client office locations from an oncology practice combined represented approximately 14.3% of our revenue compared to 18.0% of revenue for the three months ended March 31, 2012. All other clients were less than 5% of total revenue individually.

Net Income Per Common Share

We compute net income per share in accordance with ASC Topic 260 Earnings Per Share. Under the provisions of ASC 260, basic net income per share is computed using the treasury method by dividing the net income available to common stockholders by the weighted average number of common shares outstanding during the period. Diluted net income per share is computed using the weighted average number of common shares outstanding during the applicable period, plus the dilutive effect of potential common stock. Potential common stock consists of shares issuable pursuant to stock options and warrants.

Income Taxes

Deferred taxes are recognized for the tax consequences of temporary differences by applying enacted statutory rates applicable to future years to differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities. Also, the effect on deferred taxes of a change in tax rates is recognized in income in the period that included the enactment date. Temporary differences between financial and tax reporting arise primarily from the use of different depreciation methods for property and equipment, stock based compensation expense and the timing of recognition of bad debts.

We evaluate tax positions that have been taken or are expected to be taken in our tax returns, and record a liability for uncertain tax positions. We follow a two-step approach to recognizing and measuring uncertain tax positions. First, tax positions are recognized if the weight of available evidence indicates that it is more likely than not that the position will be

Table of Contents

sustained upon examination, including resolution of related appeals or litigation processes, if any. Second, the tax position is measured as the largest amount of tax or tax benefit that has a greater than 50% likelihood of being recognized or realized upon settlement. We recognize interest and penalties related to unrecognized tax benefits in the provision for income taxes in the accompanying consolidated financial statements. During the three months ended March 31, 2013 we recognized approximately \$17,000 in income tax expense, which primarily resulted from payment of taxes to various states with minimum income tax requirements as well as the federal alternative minimum corporate tax.

NOTE C REVOLVING CREDIT AND SECURITY AGREEMENT

On March 26, 2012, the Parent Company, NeoGenomics Laboratories (Borrower), and CapitalSource Finance LLC (Capital Source) entered into a First Amendment (the Amendment) to the Amended and Restated Revolving Credit and Security Agreement, dated April 26, 2010 (the Amended and Restated Credit Agreement or the Credit Facility). The Amended and Restated Credit Agreement amended and restated the original Revolving Credit and Security Agreement dated February 1, 2008, as amended, among the Parent Company, Borrower and CapitalSource (the Original Credit Agreement). The terms of the Amendment and the Amended and Restated Credit Agreement are substantially similar except that the Amendment, among other things:

- I.) Increased the maximum principal amount of the revolving credit facility (the Facility Cap) to \$8.0 million from \$5.0 million; provided, that the Borrower may request to increase the Facility Cap twice during the term of the Amended and Restated Credit Agreement in increments of \$1.0 million to a maximum of \$10,000,000;

 - II.) Extended the term of the Amended and Restated Credit Agreement to March 26, 2015;

 - III.) Revised the definition of Minimum Termination Fee to be:
 - a. 2.5% of the Facility Cap if the Revolver Termination (as defined in the Agreement) is at any time before March 26, 2013;
 - b. 1.5% of the Facility Cap if the Revolver Termination is after March 26, 2013 but before March 26, 2014;
 - c. 0.5% of the Facility Cap if the Revolver Termination is on or after March 26, 2014; and
 - d. That there shall be no Minimum Termination Fee if the Revolver Termination occurs within five (5) days of the end of the term.

 - IV.) Modified the definition of Permitted Indebtedness and Fixed Charge Coverage Ratio ; and

 - V.) Amended Section 3.1 of the Amended and Restated Credit Agreement by deleting the LIBOR shall be not less than 2.0% and replacing it with the LIBOR shall be not less than 1.0% .
- We paid Capital Source a commitment fee of \$80,000 in connection with the Amendment.

On January 25, 2013 the Borrower and CapitalSource entered into the Second Amendment to the Amended and Restated Revolving Credit and Security Agreement, dated April 26, 2010. The Second Amendment:

- I.)

Edgar Filing: NEOGENOMICS INC - Form 10-Q

Increased the Facility Cap to \$10.0 million from \$9.0 million; provided, that the Borrower may request to increase the Facility Cap twice during the term of the Amended and Restated Credit Agreement in increments of \$1.0 million to a maximum of \$12,000,000 on or after January 31, 2013;

II.) Amended Annex 1 of the Credit Facility as follows:

a) Deleted Section 2 of the Annex 1 in its entirety and replaced it with the following:

2. Minimum Cash Velocity

For each Test Period, measured as of the last day of each calendar month ending on or after December 31, 2012, Collections of Accounts of Borrowers collectively shall not be less than the Cash Velocity Percentage of Borrowers net revenue for the Revenue Period less the bad debt expense recognized on the income statement for such Revenue Period.

b) Added the following definition to the definitions set forth in such Annex in the appropriate alphabetic order:

Cash Velocity Percentage means (a) 80% for the period beginning December 31, 2012 and ending on March 31, 2013 and (b) 87.5% at all other times.

Table of Contents

We paid Capital Source a commitment fee of \$10,000 in connection with the Second Amendment.

Interest on outstanding advances under the Credit Facility are payable monthly in arrears on the first day of each calendar month. At March 31, 2013, the effective rate of interest was 5.25% and the available credit under the Credit Facility was approximately \$5.8 million and the outstanding borrowing was \$4.2 million after netting compensating cash on hand.

NOTE D INTANGIBLE ASSETS

Intangible assets as of March 31, 2013 and December 31, 2012 consisted of the following (in thousands):

	Weighted Average Amortization Period	COST	March 31, 2013 Accumulated Amortization	Net
Support Vector Machine (SVM) technology	108 months	\$ 500	\$ 70	\$ 430
Laboratory developed test (LDT) technology	164 months	\$ 1,482	\$ 108	\$ 1,374
Flow Cytometry and Cytogenetics technology	202 months	\$ 1,000	\$ 60	\$ 940
Total		\$ 2,982	\$ 238	\$ 2,744

	Weighted Average Amortization Period	COST	December 31, 2012 Accumulated Amortization	Net
Support Vector Machine (SVM) technology	108 months	\$ 500	\$ 56	\$ 444
Laboratory developed test (LDT) technology	164 months	\$ 1,482	\$ 81	\$ 1,401
Flow Cytometry and Cytogenetics technology	202 months	\$ 1,000	\$ 45	\$ 955
Total		\$ 2,982	\$ 182	\$ 2,800

We recorded approximately \$56,000 and \$14,000 in straight-line amortization expense of intangibles for the three months ended March 31, 2013 and 2012, respectively, as a research and development expense in the consolidated statement of operations. We will record all amortization of intangibles in that category until the time that we have products, services or cost savings directly attributable to these intangible assets that would require that it be recorded in cost of goods sold.

Table of Contents

The estimated amortization expense related to amortizable intangible assets for each of the five succeeding fiscal years and thereafter as of March 31, 2013 is as follows (in thousands):

Year Ending December 31,	
Remainder of 2013	\$ 167
2014	223
2015	223
2016	223
2017	223
2018	223
Thereafter	1,462
Total	\$ 2,744

NOTE E EARNINGS PER SHARE (in thousands, except EPS)

Basic earnings per share (EPS) is computed using the weighted average number of common shares outstanding during the applicable period. Diluted earnings per share is computed using the weighted average number of common shares outstanding during the applicable period, plus the dilutive effect of potential common stock. Potential common stock consists of shares issuable pursuant to stock options and warrants. Calculations of net income per share are done using the treasury stock method.

The following table provides the computation of basic and diluted earnings per share for the three month periods ending March 31, 2013 and 2012.

(in thousands, except EPS)	Three Months Ended March 31,	
	2013	2012
Net income	\$ 3	\$ 603
Basic weighted average shares outstanding	46,264	44,697
Effect of potentially dilutive securities	4,659	2,727
Diluted weighted average shares outstanding	50,923	47,424
Basic EPS	\$ 0.00	\$ 0.01
Diluted EPS	\$ 0.00	\$ 0.01

For the three months ended March 31, 2013, 5,000 outstanding options and no warrants excluded from the calculation of diluted earnings per share due to anti-diluted affects.

NOTE F EQUITYPublic Offering of Common Stock

In March 2013, the Company completed an offering of 3,322,500 shares of registered common stock, at a price of \$3.00 per share, for gross proceeds of \$10.0 million. The Company received approximately \$9.2 million in net proceeds after deducting underwriting fees and offering costs of approximately \$0.8 million.

Stock Options

Edgar Filing: NEOGENOMICS INC - Form 10-Q

As of March 31, 2013, options to purchase 5,707,799 shares of our common stock were outstanding. The exercise prices of these options range from \$0.25 to \$3.20 per share.

Table of Contents

Common Stock Warrants

As of March 31, 2013, warrants to purchase 1,358,333 shares of our common stock were outstanding. The exercise prices of these warrants range from \$0.75 to \$1.50 per share.

NOTE G COMMITMENTS

During the three months ended March 31, 2013 we entered into a lease agreement with Wells Fargo Equipment Finance, Inc. (Wells Fargo Equipment Finance) to lease approximately \$200,000 of laboratory and computer equipment. The lease agreement has a five year term with a \$1 buyout option at the end of the term and an interest rate of approximately 6% per year. We also entered into an Installment Payment Agreement with Wells Fargo Equipment Finance for the purchase of a new billing system for approximately \$145,000. The agreement will convert upon final payment for completion of the system into a lease with a 36 month term with a \$1 buyout option at the end of the term and an interest rate to be determined at the time of completion.

During the three months ended March 31, 2013 we also entered into lease schedules with several vendors for approximately \$585,000 for the purchase of laboratory and computer equipment, some of which have yet to be delivered to us. The leases have a 36 month term with \$1 buyout options at the end of the term and interest rates in the range between 10% and 13.5%.

NOTE H OTHER RELATED PARTY TRANSACTIONS

During the three months ended March 31, 2013 and 2012, Steven C. Jones, a director of the Company, earned approximately \$62,500 and \$50,000, respectively, for various consulting work performed in connection with his duties as Executive Vice President of Finance. Mr. Jones also received \$55,000 and \$55,000 during the three months ended March 31, 2013 and 2012 as payment of his annual bonus compensation for the previous fiscal years, respectively.

END OF FINANCIAL STATEMENTS.

Table of Contents

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

NeoGenomics, Inc., a Nevada corporation (referred to individually as the Parent Company or collectively with all of its subsidiaries as NeoGenomics or the Company in this Form 10-Q) is the registrant for SEC reporting purposes. Our common stock is quoted on the NASDAQ Capital Markets under the symbol NEO.

Introduction

The following discussion and analysis should be read in conjunction with the unaudited consolidated financial statements, and the notes thereto included herein. The information contained below includes statements of the Company's or management's beliefs, expectations, hopes, goals and plans that, if not historical, are forward-looking statements subject to certain risks and uncertainties that could cause actual results to differ materially from those anticipated in the forward-looking statements. For a discussion on forward-looking statements, see the information set forth in the introductory note to this Quarterly Report on Form 10-Q under the caption "Forward Looking Statements", which information is incorporated herein by reference.

Overview

We operate a network of cancer-focused testing laboratories whose mission is to improve patient care through exceptional genetic and molecular testing services. Our vision is to become America's premier cancer testing laboratory by delivering uncompromising quality, exceptional service and innovative products and services. The Company has laboratory locations in Ft. Myers and Tampa, Florida; Irvine, California; and Nashville, Tennessee, and currently offers the following types of testing services:

- a) Cytogenetics testing - the study of normal and abnormal chromosomes and their relationship to disease. Cytogenetic studies are often utilized to assist in refining treatment options for hematopoietic cancers such as leukemia and lymphoma;
- b) Fluorescence In-Situ Hybridization (FISH) testing - a branch of cancer genetics that focuses on detecting and locating the presence or absence of specific DNA sequences and genes on chromosomes;
- c) Flow cytometry testing - a rapid way to measure the characteristics of cell populations. Cells from peripheral blood, bone marrow aspirate, lymph nodes, and other areas are labeled with selective fluorescent antibodies and quantified according to their surface antigens. These fluorescent antibodies bind to specific cell surface antigens and are used to identify malignant cell populations. Flow cytometry is typically performed in conjunction with morphology testing which looks at smears on glass slides for abnormal cell populations;
- d) Immunohistochemistry (IHC) testing - the process of identifying cell proteins in a tissue section utilizing the principle of antibodies binding specifically to antigens. Specific surface cytoplasmic or nuclear markers are characteristic of cellular events such as proliferation or cell death (apoptosis). IHC is also widely used to understand the distribution and localization of differentially expressed proteins; and
- e) Molecular testing - a rapidly emerging cancer diagnostic tool focusing on the analysis of DNA and RNA, as well as the structure and function of genes at the molecular level. Molecular testing employs multiple technologies including bi-directional Sanger sequencing analysis, DNA fragment length analysis, and real-time polymerase chain reaction (RT-PCR) RNA analysis.

All of these testing services are widely utilized to determine the diagnosis and prognosis of various types and subtypes of cancer and to help predict a patient's potential response to specific therapies. NeoGenomics offers testing services on both a tech-only basis, where NeoGenomics performs the technical component of the testing (specimen set-up, staining, imaging, sorting and categorization of cells, chromosomes, genes or DNA) and the client physician performs the related professional interpretation component (analyzing the laboratory data, developing the diagnosis or prognosis as well as preparing and writing the final report), as well as on a full service or global basis where NeoGenomics performs both the technical component and our medical staff provides the professional interpretation component.

Table of Contents

Our Focus

Our primary focus is to provide high complexity, cancer-related laboratory testing services to hospitals, community-based pathology practices, and clinicians throughout the United States. We currently perform analyses for hematopoietic cancers such as leukemia and lymphoma (blood and lymphoid tumors) and solid tumor cancers such as breast, lung, colon, and bladder cancer. For hematopoietic cancers, we typically analyze bone marrow aspirate and peripheral blood specimens. For solid tumor cancers, we typically analyze tissue samples or urine.

The cancer testing services we offer to community-based pathologists are designed to be a natural extension of, and complementary to, the services that they perform within their own practices. We believe our relationship as a non-competitive partner to community-based pathology practices empowers them to expand their breadth of testing and provide a menu of services that matches or exceeds the level of service found in academic centers of excellence around the country. Community-based pathology practices typically order our services on a tech-only basis, which allows them to participate in the diagnostic process by performing the professional interpretation services without having to make the investment in laboratory personnel or equipment needed to perform the technical component of the tests.

In areas where we do not provide services to community-based pathology practices, we may directly serve oncology, dermatology, urology and other clinician practices that prefer to have a direct relationship with a laboratory for cancer-related genetic and molecular testing services. We typically service these types of clients with a global service offering where we perform both the technical and professional components of the tests ordered. Increasingly, however, larger clinician practices have begun to internalize pathology testing, and our tech-only service offering allows these larger clinician practices to also participate in the diagnostic process by performing the professional interpretation services.

We are committed to being a leader in oncology testing, and thus we are also focused on innovation. Our goal is to develop new assays to help physician clients better manage their patients and to enable them to practice evidence-based medicine tailored specifically for each of their patients. During 2012, we introduced 29 new molecular tests, greatly expanding our molecular testing menu. During the first quarter of 2013, we introduced another 17 new molecular tests. We now believe that we have the most comprehensive molecular test menus of any laboratory in the United States. Molecular testing is a rapidly growing part of oncology testing, which allows us to determine specific subtypes of cancer, as well as predict responses to certain therapeutics by isolating certain genetic mutations in DNA and RNA. We also introduced a number of NeoTYPE™ panels that combine multiple molecular tests into panels targeting specific types of cancer to help pathologists and oncologists determine cancer types on difficult cases. We use bi-directional sequencing analysis which we believe is superior to many of the molecular tests being offered by our competitors because we are able to pick up mutations that other methods would not detect. We believe that we are well-positioned to capitalize on this rapidly growing area.

Our 10 color flow cytometry service offering launched in 2012 has been very well received as it provides approximately 60% more data than previous flow cytometry platforms and allows for better operating efficiencies. We believe we are the only cancer genetics laboratory in the United States to offer 10 color flow cytometry on a tech-only basis. In addition, we vastly improved our immunohistochemistry offering, brought up a new digital imaging platform and launched several new FISH tests including a very promising new test to aid in the diagnosis of Barrett's Esophagus that we are offering on a semi-exclusive basis. We expect these new tests to drive substantial growth in 2013. We also expect to continue to make investments in R&D that will allow us commercialize a number of new and innovative genetic tests as we move forward.

With the recent advances in genomics, proteomics and digital pathology, frequently large amounts of data are generated and managing this data is difficult without the aid of computer-based algorithms and pattern recognition. We believe that the best system for pattern recognition and data analysis is a technology known as Support Vector Machine or SVM, especially when combined with a technology called Recursive Feature Elimination or RFE. Health Discovery Corporation (HDC) has an extensive array of pending and issued patents surrounding SVM and RFE technology. In January 2012, we entered into a Master License Agreement (the License Agreement) with HDC, pursuant to which we were granted an exclusive worldwide license to utilize HDC's intellectual property portfolio, including some 84 issued and pending patents related to SVM and RFE as well as certain patents relating to digital image analysis, biomarker discovery, and gene and protein-based diagnostic, prognostic, and predictive testing, to develop and commercialize laboratory developed tests (LDTs) and other products relating to hematopoietic and solid tumor cancers.

Under the terms of the License Agreement, we may, subject to certain limitations, use, develop, make, have made, modify, sell, and commercially exploit products and services in the fields of laboratory testing, molecular diagnostics,

Table of Contents

clinical pathology, anatomic pathology and digital image analysis relating to the development, marketing, production or sale of any LDTs or other products used for diagnosing, ruling out, predicting a response to treatment, and/or monitoring treatment of any hematopoietic and solid tumor cancers excluding cancers affecting the retina and breast cancer; provided, that the exclusion for breast cancer shall be in effect only so long as that certain license agreement between HDC and the licensee of the technology for breast cancer applications is in full force and effect and such licensee is not in material breach of any its obligations under that agreement.

By licensing this technology and combining the expertise that already existed at HDC with our expertise in genomics, proteomics and digital imaging, we believe we are well-positioned to begin developing innovative and proprietary new products. SVM-RFE techniques will allow us to combine and analyze data from genomics, proteomics and digital imaging to develop practical, cost-effective and reliable new assays. Using this technology, we believe we will be able to offer a whole line of advanced tests that will help physicians better manage the treatment options for cancer patients. We have prioritized the development of better tests for the diagnosis and prediction of clinical behavior in prostate cancer, pancreatic cancer, breast cancer, leukemia/lymphoma and other solid tumors as part of the License Agreement.

Competitive Strengths

Turnaround Times

We strive to provide industry leading turnaround times for test results to our clients nationwide. By providing information to physicians in a rapid manner, they can begin treating their patients as soon as possible. We believe our average 4-5 day turnaround time for our cytogenetics testing services, our average 3-4 day turnaround time for FISH testing services, our 5-7 day turnaround time for molecular testing and our average 1 day turnaround time for flow cytometry testing services are industry-leading benchmarks for national laboratories. Our consistent timeliness of results is a competitive strength and a driver of additional testing requests by our referring physicians. Quick turnaround times allow for the performance of other adjunctive tests within an acceptable diagnosis window in order to augment or confirm results and more fully inform treatment options. We believe that our rapid turnaround times are a key differentiator of NeoGenomics versus other national laboratories, and our clients often cite them as a key factor in their relationship with us.

Medical Team

Our team of medical professionals and Ph.Ds. are specialists in the field of genetics and oncology. Our medical team is led by our Chief Medical Officer, Dr. Maher Albitar, a renowned hematopathologist with extensive experience in molecular and genetic testing. Prior to joining NeoGenomics, Dr. Albitar was Medical Director for Hematopathology and Oncology at the Quest Nichols Institute and Chief R&D Director for Hematopathology and Oncology for Quest Diagnostics. He also served as Section Chief for Leukemia at the University of Texas M. D. Anderson Cancer Center. In addition to Dr. Albitar, we employ several other full-time M.D.s and Ph.Ds.

Extensive Tech-Only Service Offerings

We launched the first tech-only FISH testing services in the United States in 2006, and we currently have the most extensive menu of tech-only FISH services in the country. We also offer tech-only flow cytometry and immunohistochemistry testing services. These types of testing services generally allow the professional interpretation component of a test to be billed separately from the technical component. Our NeoFISH™, NeoFLOW™ and other tech-only service offerings allow properly trained and credentialed community-based pathologists to extend their own practices by performing professional interpretations services, which allows them to better service the needs of their local clientele without the need to invest in the lab equipment and personnel required to perform the technical component of genetic and molecular testing.

Our tech-only services are designed to give pathologists the option to choose, on a case by case basis, whether they want to order just the technical information and images relating to a specific test so they can perform the professional interpretation, or order global services and receive a comprehensive test report which includes a NeoGenomics Pathologist's interpretation of the test results. Our clients appreciate the flexibility to access NeoGenomics' medical staff for difficult or complex cases or when they are otherwise unavailable to perform professional interpretations. We believe this innovative approach to serving the needs of pathology clients results in longer term, more committed client relationships that are more akin to strategic partnerships. Our extensive tech-only service offerings have differentiated NeoGenomics and allowed us to compete more effectively against larger, more entrenched competitors in our niche of the industry.

Table of Contents

Global Service Offerings

We also offer a full set of global services to meet the needs of those clients who are not credentialed and trained in interpreting genetic tests and who are looking for specialists to interpret the testing results for them. In our global service offerings, our lab performs the technical component of the tests and our M.D.s and Ph.Ds. provide the interpretation services. Our professional staff is also available for post testing consultative services. These clients rely on the expertise of our medical team to give them the answers they need in a timely manner to help inform their diagnoses and treatment decisions. Many of our tech-only clients also rely on our medical team for difficult or challenging cases by ordering our global testing services on a case by case basis or our medical team can serve as a backup to our clients who need overflow or weekend coverage. Our Genetic Pathology Solutions (GPS) report summarizes all relevant case data from our global services on one summary report. When providing global services, NeoGenomics performs both the technical and professional component of the test, which results in a higher reimbursement level.

Client Education Programs

We believe we have one of the most extensive client education programs in the genetic and molecular testing industry. We train pathologists how to use and interpret genetic testing services so that they can then participate in our tech-only service offerings. Our educational programs include an extensive library of on-demand training modules, online courses, and custom tailored on-site training programs that are designed to prepare clients to utilize our tech-only services. Each year, we also regularly sponsor seminars and webinars on emerging topics of interest in our field. Our medical staff is involved in many aspects of our training programs.

Superior Testing Platforms

We use some of the most advanced testing platforms in the laboratory industry. Our new 10 color flow cytometry platform was recently launched and we are the first national laboratory to offer this service on a tech-only basis. Most of our competitors only offer between 5 and 8 color Flow Cytometry testing. We believe that this allows us to provide more and better data to our clients, particularly when dealing with limited sample quantities. The use of bi-directional sequencing in our molecular testing allows us to detect multiple mutations which can be missed with single point mutation analysis. Many laboratories rely on more limited kits which only look at single points on a gene. Our automated FISH and Cytogenetics tools allow us to deliver the highest quality testing to our clients.

Laboratory Information System (LIS)

We believe we have a state-of-the-art Laboratory Information System (LIS) that interconnects our locations and provides flexible reporting solutions to clients. This system allows us to standardize testing and deliver uniform test results and images throughout our network, regardless of the location that any specific portion of a test is performed within our network. This allows us to move specimens and image analysis work between locations to better balance our workload. Our LIS also allows us to offer highly specialized and customizable reporting solutions to our tech-only clients. For instance, our tech-only NeoFISH™ and NeoFLOW™ applications allow our community-based pathologist clients to tailor individual reports to their specifications and incorporate only the images they select and then issue and sign-out such reports from our system with their own logos at the top. Our customized reporting solution even allows our clients to incorporate test results performed on ancillary tests not performed at NeoGenomics into summary report templates. This feature has been well-received by clients.

National Direct Sales Force

Our direct sales force has been trained extensively in cancer genetic testing and consultative selling skills to service the needs of clients. Our sales representatives (Territory Business Managers) are organized into three regions (Northeast, Central and West). These sales representatives all utilize our custom Customer Relationship Management System to manage their territories, and we have integrated all of the important customer care functionality within our LIS into Salesforce.com so that our Territory Business Managers can stay informed of emerging issues and opportunities within their regions. As of March 31, 2013, we had 17 Territory Business Managers, four Oncology Business Development Managers, one Managed Care Specialist, and three Regional Managers.

Table of Contents

Geographic Locations

Many high complexity laboratories within the cancer testing niche have frequently operated a core facility on either the West Coast or the East Coast of the United States to service the needs of their customers around the country. We believe our clients and prospects desire to do business with a laboratory with national breadth and a local presence. We have four facilities, two large laboratory locations in Fort Myers, Florida and Irvine, California and two smaller laboratory locations in Nashville, Tennessee and Tampa, Florida. Our objective is to operate one lab with four locations in order to deliver standardized test results. We intend to continue to develop and open new laboratories and/or expand our current facilities as market situations dictate and business opportunities arise.

Scientific Pipeline

In the past few years our field has experienced a rapid increase in tests that are tied to specific genomic pathways. These predictive tests are typically individualized for a small sub-set of patients with a specific subtype of cancer. The therapeutic target in the genomic pathways is typically a small molecule found at the level of the cell surface, within the cytoplasm and/or within the nucleus. These genomic pathways, known as the Hallmarks of Cancer, contain a target-rich environment for small-molecule anti-therapies. These anti-therapies target specific mutations in the major cancer pathways such as the Proliferation Pathway, the Apoptotic Pathway, the Angiogenic Pathway, the Metastasis Pathway, and the Signaling Pathways and Anti-Signaling Pathways.

As an example, the FDA approved a small molecule anti-therapy drug (Xalkori) that targets a mutation in the ALK gene for a small sub-set of patients with Non-Small Cell Lung Cancer (NSCLC). Between 50-61% of patients with an ALK gene rearrangement will respond to this therapy. To identify patients eligible for this specific small-molecule therapy, an FDA-approved FISH test that NeoGenomics and certain other laboratories offer, must be performed. This ALK FISH test is considered a companion diagnostic test and it is critical that this test be performed and the patient found to have an ALK mutation before therapy can be administered. Tests such as the ALK FISH test allow our clients to direct individualized treatments to each cancer patient in a timely manner. We are increasingly focused on developing similar predictive tests as part of our new product development pipeline. In the first quarter of 2013, we added an additional 17 new molecular tests to further advance our testing menu. In addition, we expanded our IHC menu and our digital pathology platform, complementary services we believe will help to drive future growth.

We are working with the technology we licensed from HDC to develop new proprietary cancer tests, streamline our workflow, and reduce our costs.

Seasonality

The majority of our testing volume is dependent on patients being treated by hematology/oncology professionals and other healthcare providers. Volume of testing generally declines during the vacation seasons, year-end holiday periods and other major holidays, particularly when those holidays fall during the middle of the week. In addition, volume of testing tends to decline due to adverse weather conditions, such as heavy snow, excessively hot or cold spells or hurricanes, tornados in certain regions, consequently reducing revenues and cash flows in any affected period. Therefore, comparison of the results of successive periods may not accurately reflect trends for future periods.

Critical Accounting Policies

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires us to make estimates and assumptions and select accounting policies that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

While many operational aspects of our business are subject to complex federal, state and local regulations, the accounting for our business is generally straightforward with net revenues primarily recognized upon completion of the testing process. Our revenues are primarily comprised of laboratory tests, and approximately one-half of total operating costs and expenses consist of employee compensation and benefits. Due to the nature of our business, several of our accounting policies involve significant estimates and judgments. These accounting policies have been described in our Annual Report on Form 10-K for the year ended December 31, 2012.

Table of Contents**Results of Operations for the Three Months Ended March 31, 2013 as Compared to the Three Months Ended March 31, 2012**

The following table presents the consolidated statements of operations as a percentage of revenue:

	For the Three months ended March 31.	
	2013	2012
NET REVENUE	100%	100%
COST OF REVENUE	54%	53%
GROSS PROFIT	46%	47%
OPERATING EXPENSES:		
General and administrative	27%	25%
Research and development	5%	3%
Sales and marketing	12%	13%
TOTAL OPERATING EXPENSES	44%	41%
INTEREST (INCOME) EXPENSE, NET	2%	2%
NET INCOME BEFORE INCOME TAX	0%	4%
INCOME TAXES	0%	0%
NET INCOME	0%	4%

Technical Component Grandfather Clause Expiration

On February 22, 2012, the Middle Class Tax Relief Act (MCTRA) was enacted. The MCTRA included a provision that specified that the Centers for Medicare and Medicaid Services (CMS) Technical Component Grandfather clause (TC Grandfather) would expire on June 30, 2012. The TC Grandfather clause had allowed independent laboratories like us to bill Medicare directly for the technical component of certain hospital in-patient and out-patient laboratory tests reimbursable off of the Medicare Physician Fee Schedule for hospitals that had a relationship with an independent pathology lab prior to July 22, 1999. As a result of this regulatory change, since being effective July 1, 2012, we are now required to bill hospitals directly for these technical component services. Our hospital clients, however, receive no incremental reimbursement for in-patient tests and only limited incremental reimbursement for out-patient tests. Thus, the expiration of the TC Grandfather clause created price competition in approximately 18% of our revenue base, where previously there had been none. We estimate that this resulted in a negative impact of approximately \$1.3 million of revenue for the three months ended March 31, 2013 versus the three months ended March 31, 2012. This impact to revenue also directly impacted gross margin and net income. We believe that over time we can return to the gross margins we experienced before the TC Grandfather expiration as we continue to grow our business and improve the efficiencies of our laboratory operations as evidenced by the fact that our gross profit margin is only 1% lower for the three months ended March 31, 2013 as compared to the three months ended March 31, 2012. The requirement to submit claims to our clients directly, instead of Medicare, has also had an impact on the time it takes for us to collect on the receivables for the tests in question. Medicare typically pays each claim filed within 3 to 4 weeks of filing, however, clients typically get billed only once a month for all claims, and the collection cycle time from clients is generally 30-90 days or more from the time they receive our bill. While we could bill Medicare on a daily basis, many of our Hospital clients want only one cumulative bill at the end of the month.

Table of Contents**Revenue**

Our revenue, requisition and test metrics for the three months ended March 31, 2013 and 2012 (in thousands, except test and requisition data) are as follows:

	For the Three Months Ended March 31, 2013	For the Three Months Ended March 31, 2012	% Change
Requisitions Received	20,604	16,934	21.7%
Number of Tests Performed	32,088	26,932	19.1%
Avg. # of Tests / Requisition	1.56	1.59	(2.1)%
Total Testing Revenue	\$ 15,657	\$ 15,160	3.3%
Average Revenue/Requisition	\$ 760	\$ 895	(15.1)%
Average Revenue/Test	\$ 488	\$ 563	(13.3)%

Our approximate 3.3% year-over-year revenue growth is a result of a broad based increase in the number of new clients resulting in a 19.1% increase in test volume. Our average revenue/test decrease of approximately 13.3% was primarily attributable to the expiration of the Medicare TC Grandfather clause. As a result of this regulatory change, effective July 1, 2012, we no longer are able to bill Medicare directly for the technical component of certain hospital in-patient and out-patient laboratory tests and now must bill our hospital clients directly for such services, and are often reimbursed at a lower rate than what we were previously receiving from Medicare. Average revenue per test and per requisition was also modestly impacted by an increasing proportion of lower average revenue molecular and immunohistochemistry tests in our testing mix.

Cost of Revenue and Gross Profit

Cost of revenue includes payroll and payroll related costs for performing tests, depreciation of laboratory equipment, rent for laboratory facilities, laboratory reagents, probes and supplies, and delivery and courier costs relating to the transportation of specimens to be tested. Our cost of revenue, gross profit and test metrics for the three months ended March 31, 2013 and 2012 are as follows:

	For the three months ended March 31.			
	2013	2012	Change	% Change
Cost of Revenue	\$ 8,411,000	\$ 8,016,000	\$ 395,000	4.9%
Cost of Revenue as a % of revenue	53.7%	52.9%		
Gross Profit	\$ 7,246,000	\$ 7,144,000	\$ 102,000	1.4%
Gross Profit as a % of revenue	46.3%	47.1%		
Average Cost of Revenue per Test	\$ 262	\$ 298	\$ (36)	(12.1)%
Average Gross Profit per Test	\$ 226	\$ 265	\$ (39)	(14.7)%

Overall cost of revenue increased in 2013 due to the large increases in our testing volumes. The decline in cost of revenue per test was the result of improved productivity in our laboratory, as we experienced an increase in the amount of tests processed per laboratory FTE (full time equivalent personnel). This was driven by improved capacity planning and utilization along with several process improvements in the laboratory. We also experienced a sharp reduction in test send-outs to other laboratories as a result of our expanded Molecular test services menu and a reduction in our contract labor due to our expanded medical staff. We also saw rapid growth in lower priced and lower cost molecular tests. We continue to focus on improving our laboratory operations in order to continue to drive further improvements in our cost per test. We have best practice teams in place in several laboratory areas and we are working with consultants to implement lean processes into our laboratories to further reduce our costs. We believe that we will continue to see a reduction in average cost per test in future periods based on the activities of our best practices teams.

Table of Contents**Sales and Marketing**

Sales and marketing expenses relate primarily to the employee related costs of our sales management, sales representatives, sales and marketing consultants, marketing, and customer service personnel.

**For the three months ended
March 31.**

	2013	2012	Change	%
Sales and marketing	\$ 1,931,000	\$ 2,036,000	\$ (105,000)	(5.2)
As a % of revenue	12.3%	13.4%		

Sales and marketing expenses decreased approximately 5%, or \$0.1 million to \$1.9 million for the three months ended March 31, 2013 as compared to \$2.0 million for the three months ended March 31, 2012, primarily due to reduced sales commissions.

We expect our overall sales and marketing expenses to increase modestly with increased test volumes in 2013, but remain stable as a percentage of revenue. We hired four additional sales representatives during the first quarter and anticipate growing our sales force further in 2013.

General and Administrative Expenses

General and administrative expenses relate to billing, bad debts, finance, human resources, information technology and other administrative functions. They primarily consist of employee related costs (such as salaries, fringe benefits, and stock-based compensation expense), professional services, facilities expense, and depreciation and administrative-related costs allocated to general and administrative expenses.

**For the three months ended
March 31.**

	2013	2012	Change	%
General and administrative	\$ 4,175,000	\$ 3,750,000	\$ 425,000	11.3%
As a % of revenue	26.7%	24.7%		

General and administrative expenses increased approximately 11%, or \$0.4 million to \$4.2 million for the three months ended March 31, 2013 as compared to \$3.8 million for the three months ended March 31, 2012. The increase in general and administrative expenses is primarily a result of adding information technology and billing personnel to support the increase in our testing volumes as well as increased health insurance costs and increased depreciation on fixed assets.

Bad debt expense decreased by approximately 11.7%, or approximately \$98,000 to \$741,000 for the three months ended March 31, 2013 as compared to approximately \$839,000 for the three months ended March 31, 2012. This decrease was primarily the result of having much more client billing in our overall payor mix related to the expiration of the Medicare TC Grandfather Clause which typically has less bad debt associated with it than with insurance billing. This decline also resulted from having a greater number of managed care contracts in place as of March 31, 2013 with more insurance companies than at March 31, 2012.

We expect our general and administrative expenses to increase as we add personnel, increase our billing and collections activities; incur additional expenses associated with the expansion of our facilities and backup systems; incur additional bad debt expense related to increasing sales, and as we continue to build our physical infrastructure to support our anticipated growth. However, we expect general and administrative expenses to continue to decline as a percentage of our revenue as our case volumes increase and as we continue to develop more operating leverage in our business.

Research and Development Expenses

Research and development (R&D) expenses relate to the cost of developing new proprietary and non-proprietary genetic tests. Our R&D team has been behind the expansion in our molecular testing menu which has enabled us to sharply reduce our send-out testing. R&D expenses consist of payroll for our R&D staff, supplies cost, stock compensation expense, as well as cost related to our licensing agreement with Health

Edgar Filing: NEOGENOMICS INC - Form 10-Q

Discovery Corporation, including amortization of the licensed technology.

Table of Contents**For the three months ended
March 31.**

	2013	2012	Change	% Change
Research and development	\$ 835,000	\$ 497,000	\$ 338,000	67.8%
As a % of revenue	5.3%	3.3%		

Research and development expenses increased approximately 68%, or \$338,000 to \$835,000 for the three months ended March 31, 2013 as compared to approximately \$497,000 for the three months ended March 31, 2012. The increase in research and development expenses is primarily a result of \$298,000 of incremental stock compensation expense for non-employee stock options and warrants as a result of the 58% increase in our stock price during the three months ended March 31, 2013.

We expect our research and development expenses in future quarters to decline from the level of our expenses incurred for the three months ended March 31, 2013, as variable stock compensation should stabilize.

Other Income (Expense)

Other income and (expense) primarily consists of the interest expense we incur on our borrowing arrangements (primarily comprised of interest paid and payable on advances under our revolving credit facility with Capital Source and interest paid on capital lease obligations) offset by the interest income we earn on cash deposits. Net interest expense increased by approximately \$27,000 from approximately \$258,000 in for the three months ended March 31, 2012 to \$285,000 for the three months ended March 31, 2013, reflecting higher borrowings, particularly related to our revolving credit facility and capital lease obligations as we acquired additional equipment to support our increasing testing volumes.

Net Income

As a result of the foregoing, we reported net income of \$3,000 or \$0.00/share, for the three months ended March 31, 2013 as compared to a net income of \$603,000 or \$0.01/share, for the three months ended March 31, 2012.

Non-GAAP Measures

Adjusted EBITDA is defined by NeoGenomics as net income from continuing operations before (i) interest expense, (ii) tax expense, (iii) depreciation and amortization expense, (iv) non-cash stock-based compensation and warrant amortization expense and (v) other extraordinary or non-recurring charges. NeoGenomics believes that Adjusted EBITDA provides a more consistent measurement of operating performance and trends across reporting periods by excluding these cash and non-cash items of expense not directly related to ongoing operations from income. Adjusted EBITDA also assists investors in performing analysis that is consistent with financial models developed by research analysts.

Adjusted EBITDA as defined by NeoGenomics is not a measurement under GAAP and may differ from non-GAAP measures used by other companies. There are limitations inherent in non-GAAP financial measures such as Adjusted EBITDA because they exclude a variety of charges and credits that are required to be included in a GAAP presentation, and do not therefore present the full measure of NeoGenomics recorded costs against its net revenue. Accordingly, investors should consider non-GAAP results together with GAAP results in analyzing NeoGenomics financial performance.

Table of Contents

The following is a reconciliation of GAAP net income to Non-GAAP EBITDA and Adjusted EBITDA for the three months ending March 31, 2013 and 2012:

	For the three months ended March 31,	
	2013	2012
Net income (Per GAAP)	\$ 3,000	\$ 603,000
<i>Adjustments to Net Income:</i>		
Interest expense (income), net	285,000	258,000
Amortization of intangibles	56,000	14,000
Depreciation of property and equipment	990,000	749,000
Income taxes	17,000	
EBITDA (non-GAAP)	1,350,000	1,624,000
<i>Further Adjustments to EBITDA:</i>		
Non-cash stock-based compensation	444,000	151,000
Adjusted EBITDA (non-GAAP)	\$ 1,794,000	\$ 1,775,000

Trade Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable are reported, net of an allowance for doubtful accounts, which is estimated based on the aging of accounts receivable with each payer category and the historical data on bad debts in these aging categories. In addition, the allowance is adjusted periodically for other relevant factors, including regularly assessing the state of our billing operations in order to identify issues which may impact the collectability of receivables or allowance estimates. Revisions to the allowance are recorded as an adjustment to bad debt expense within general and administrative expenses. After appropriate collection efforts have been exhausted, specific receivables deemed to be uncollectible are charged against the allowance in the period they are deemed uncollectible. Recoveries of receivables previously written-off are recorded as credits to the allowance.

The following tables present the dollars and percentage of the Company's gross accounts receivable from customers outstanding by aging category at March 31, 2013 and December 31, 2012:

NEOGENOMICS AGING OF RECEIVABLES BY PAYER GROUP

March 31, 2013

Payer Group	0-30	%	31-60	%	61-90	%	91-120	%	>120	%	Total	%
Client	\$ 2,602,683	14%	\$ 1,705,527	9%	\$ 1,531,801	8%	\$ 997,136	5%	\$ 1,056,919	5%	\$ 7,894,066	41%
Commercial												
Insurance	1,107,150	6%	823,818	4%	804,455	4%	496,754	3%	3,221,319	17%	6,453,496	34%
Medicaid	51,337	0%	53,492	0%	57,736	1%	35,073	0%	324,336	2%	521,974	3%
Medicare	860,792	4%	660,144	4%	439,715	2%	252,130	1%	1,559,457	8%	3,772,238	19%
Private Pay		0%	5,082	0%	2,751	0%	13,298	0%	14,537	0%	35,668	0%
Unbilled Revenue	564,855	3%		0%		0%		0%		0%	564,855	3%
Total	\$ 5,186,817	27%	\$ 3,248,063	17%	\$ 2,836,458	15%	\$ 1,794,391	9%	\$ 6,176,568	32%	\$ 19,242,297	100%

December 31, 2012

Edgar Filing: NEOGENOMICS INC - Form 10-Q

Payer Group	0-30	%	31-60	%	61-90	%	91-120	%	>120	%	Total	%
Client	\$ 2,481,019	15%	\$ 1,903,574	11%	\$ 1,824,849	11%	\$ 660,358	4%	\$ 517,784	3%	\$ 7,387,584	44%
Commercial												
Insurance	913,997	5%	789,529	5%	714,336	4%	590,288	3%	2,496,344	15%	5,504,494	32%
Medicaid	27,664	0%	33,094	0%	59,349	0%	46,358	0%	326,838	3%	493,303	3%
Medicare	836,619	5%	541,790	3%	451,912	3%	291,509	2%	1,350,217	7%	3,472,047	20%
Private Pay		0%	8,194	0%	17,339	0%		0%	287	0%	25,820	0%
Unbilled												
Revenue	152,253	1%		0%		0%		0%		0%	152,253	1%
Total	\$ 4,411,552	26%	\$ 3,276,181	19%	\$ 3,067,785	18%	\$ 1,588,513	9%	\$ 4,691,470	28%	\$ 17,035,501	100%

Table of Contents

The following table represents our allowance balances at each balance sheet date presented and that allowance as a percentage of gross accounts receivable:

	March 31, 2013	December 31, 2012	Change
Allowance for doubtful accounts	\$ 3,615,000	\$ 3,002,000	\$ 613,000
As a % of total accounts receivable	18.8%	17.6%	

At March 31, 2013 our allowance for doubtful accounts increased \$613,000 as compared to December 31, 2012. The increase is attributed to the overall increase in our accounts receivable balance. As a percentage of total accounts receivable the allowance for doubtful accounts increased to 18.8% at March 31, 2013 from 17.6% at December 31, 2012. The increase in the allowance for doubtful accounts as of March 31, 2013 is primarily the result of the 4% increase of accounts receivable aged greater than 120 days which are reserved for at a higher percentage.

Liquidity and Capital Resources

The following table presents a summary of our cash flows provided by (used in) operating, investing and financing activities for the three months ended March 31, 2013 and 2012 as well as the period ending cash and cash equivalents and working capital.

	For the three months ended March 31.	
	2013	2012
Net cash provided by (used in):		
Operating activities	\$ (1,330,000)	\$ (1,065,000)
Investing activities	(239,000)	(1,314,000)
Financing activities	4,329,000	2,507,000
Net increase in cash and cash equivalents	2,760,000	128,000
Cash and cash equivalents, beginning of period	1,868,000	2,628,000
Cash and cash equivalents, end of period (1)	\$ 4,628,000	\$ 2,756,000
Working Capital (2), end of period	\$ 10,794,000	\$ 1,239,000

(1) Excludes restricted cash of \$0.3M at March 31, 2012.

(2) Defined as current assets - current liabilities.

Our net cash used in operating activities is driven primarily by increases in our accounts receivable balance. Our accounts receivable balance usually increases significantly in the first quarter as most patients have not yet reached their deductible limits for the year, which results in an increased amount of billing and collection activity with individual patients. In addition, during the first quarter of 2013, Medicare changed how molecular tests are billed and how they are reimbursed. This is causing delays in Medicare payments, as well as payments from many commercial insurance companies that are waiting to see how Medicare is going to handle the new molecular changes.

In addition, the first quarter is when we pay our incentive bonuses, and this payout typically reduces our first quarter cash flow. Finally our first quarter cash flow was impacted by the fact that we had seven payrolls, while other quarters can have six payrolls. This additional payroll impacts the cash flow in the quarter with the extra payroll.

We have also used approximately \$239,000 in cash to purchase or develop property and equipment during the first quarter of 2013.

Our cash provided from financing activities for the three months ended March 31, 2013 consisted primarily of net cash proceeds (after costs) of \$9.2 million from the equity raise we completed in the first quarter of 2013 partially offset by the partial pay-down on our revolving credit facility with Capital Source.

Edgar Filing: NEOGENOMICS INC - Form 10-Q

On March 26, 2012, the Parent Company, NeoGenomics Laboratories (together with the Parent Company, the Borrower), and CapitalSource Finance LLC (Capital Source) entered into a First Amendment (the Amendment) to the

Table of Contents

Amended and Restated Revolving Credit and Security Agreement, dated April 26, 2010 (the "Amended and Restated Credit Agreement" or the "Credit Facility"). The Amended and Restated Credit Agreement amended and restated the original Revolving Credit and Security Agreement dated February 1, 2008, as amended, by and among the Parent Company, Borrower and CapitalSource (the "Original Credit Agreement"). The terms of the Amendment and the Amended and Restated Credit Agreement are substantially similar except that the Amendment, among other things:

- I.) Increased the maximum principal amount of the revolving credit facility (the "Facility Cap") to \$8.0 million from \$5.0 million; provided, that the Borrower may request to increase the Facility Cap twice during the term of the Amended and Restated Credit Agreement in increments of \$1.0 million to a maximum of \$10,000,000;
- II.) Extended the term of the Amended and Restated Credit Agreement to March 26, 2015;
- III.) Revised the definition of "Minimum Termination Fee" to be:
 - a. 2.5% of the Facility Cap if the Revolver Termination (as defined in the Agreement) is at any time before March 26, 2013;
 - b. 1.5% of the Facility Cap if the Revolver Termination is after March 26, 2013 but before March 26, 2014;
 - c. 0.5% of the Facility Cap if the Revolver Termination is on or after March 26, 2014; and
 - d. That there shall be no Minimum Termination Fee if the Revolver Termination occurs within five (5) days of the end of the term.
- IV.) Modified the definition of "Permitted Indebtedness" and "Fixed Charge Coverage Ratio"; and
- V.) Amended Section 3.1 of the Amended and Restated Credit Agreement by deleting "the LIBOR shall be not less than 2.0%" and replacing it with "the LIBOR shall be not less than 1.0%".

We paid Capital Source a commitment fee of \$80,000 in connection with the Amendment.

On July 27, 2012 the Facility Cap was increased from \$8.0 million to \$9.0 million.

Interest on outstanding advances under the Credit Facility is payable monthly in arrears on the first day of each calendar month at an effective rate of interest of 5.25%.

During 2012, SunTrust Bank agreed to remove the requirement of restricted cash with our equipment leases and \$500,000 of our cash became unrestricted.

On December 31, 2012 the available credit under the Credit Facility was approximately \$0.5 million and the outstanding borrowing was \$8.5 million after netting compensating cash on hand.

On January 25, 2013 the Borrower and CapitalSource entered into a Second Amendment (the "Second Amendment") to the Amended and Restated Credit Agreement. The terms of the Second Amendment:

Edgar Filing: NEOGENOMICS INC - Form 10-Q

I.) Increased the Facility Cap to \$10.0 million from \$9.0 million; provided, that the Borrower may request to increase the Facility Cap twice during the term of the Amended and Restated Credit Agreement in increments of \$1.0 million to a maximum of \$12,000,000 on or after January 31, 2013;

II.) Amended Annex 1 of the Credit Facility as follows:

a) Deleted Section 2 of the Annex 1 in its entirety and replaced it with the following:

2. Minimum Cash Velocity

For each Test Period, measured as of the last day of each calendar month ending on or after December 31, 2012, Collections of Accounts of Borrowers collectively shall not be less than the Cash Velocity Percentage of Borrowers net revenue for the Revenue Period less the bad debt expense recognized on the income statement for such Revenue Period.

b) Added the following definition to the definitions set forth in such Annex in the appropriate alphabetic order:

Cash Velocity Percentage means (a) 80% for the period beginning December 31, 2012 and ending on March 31, 2013 and (b) 87.5% at all other times.

Table of Contents

We paid Capital Source a commitment fee of \$10,000 in connection with the Second Amendment.

As of March 31, 2013 we are in compliance with all covenants to the Credit Facility.

In March 2013, the Company completed an offering of 3,322,500 shares of registered common stock at a price of \$3.00 per share, for gross proceeds of \$10.0 million. The Company received approximately \$9.2 million in net proceeds after deducting underwriting fees and offering costs of approximately \$0.8 million.

We had over \$10 million in cash on hand and borrowing capacity as of March 31, 2013. We had unrestricted cash on hand of \$4.6 million as of March 31, 2013, and the available credit under the Credit Facility was approximately \$5.8 million. The outstanding borrowing under our credit facility was \$4.2 million after netting compensating cash on hand. As such, we believe we have adequate resources to meet our operating commitments.

Capital Expenditures

We currently forecast capital expenditures in order to execute on our business plan. The amount and timing of such capital expenditures will be determined by the volume of business, but we currently anticipate that we will need to purchase approximately \$5.0 million to \$6.0 million of additional capital equipment, software and leasehold improvements during the next year. We plan to fund these expenditures with capital lease financing arrangements, cash, and through bank loan facilities. If we are unable to obtain such funding, we will need to pay cash for these items.

Related Party Transactions

Consulting Agreements

During the three months ended March 31, 2013 and 2012, Steven C. Jones, a director of the Company, earned approximately \$62,500 and \$50,000, respectively, for various consulting work performed in connection with his duties as Executive Vice President of Finance. Mr. Jones also received \$55,000 and \$55,000 during the three months ended March 31, 2013 and 2012 as payment of his annual bonus compensation for the previous fiscal years, respectively.

ITEM 3 Quantitative and Qualitative Disclosures About Market Risk

We are a smaller reporting company as defined by Rule 12b-2 of the Securities Exchange Act of 1934 and are not required to provide information under this item.

ITEM 4 Controls and Procedures

Disclosure Controls and Procedures

We maintain disclosure controls and procedures designed to ensure that information required to be disclosed in reports filed under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our principal executive officer, principal financial officer, and principal accounting officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating our disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives.

As required by SEC Rule 15d-15, our management carried out an evaluation, under the supervision and with the participation of our principal executive officer, principal financial officer, and principal accounting officer, of the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, our principal executive officer, principal financial officer, and principal accounting officer concluded that our disclosure controls and procedures were effective at a reasonable assurance level as of the end of the period covered by this report.

Table of Contents

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during the three months ended March 31, 2013 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

PART II OTHER INFORMATION

ITEM 1 LEGAL PROCEEDINGS

From time to time the Company is engaged in legal proceedings in the ordinary course of business. We do not believe any current legal proceedings are material to our business. No material proceedings were terminated during the quarter ended March 31, 2013.

ITEM 1A RISK FACTORS

We are a smaller reporting company as defined by Rule 12b-2 of the Securities Exchange Act of 1934 and are not required to provide information under this Item. However current and prospective investors are encouraged to review the risks set forth in Part I, Item 1A, Risk Factors in our Annual Report on Form 10-K as filed with the Securities and Exchange Commission on February 21, 2013.

ITEM 2 UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None

ITEM 3 DEFAULTS UPON SENIOR SECURITIES

Not Applicable

ITEM 4 MINE SAFETY DISCLOSURES

Not Applicable

ITEM 5 OTHER INFORMATION

None

Table of Contents**ITEM 6 EXHIBITS**

EXHIBIT NO.	DESCRIPTION
10.1	Second Amendment to Amended and Restated Credit and Security Agreement dated January 25, 2013 between NeoGenomics Laboratories, Inc. and CapitalSource Finance LLC. as incorporated by reference to the Company's Annual Report on Form 10-K filed on February 21, 2013.
31.1	Certification by Principal Executive Officer pursuant to Rule 13a-14(a)/ 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification by Principal Financial Officer pursuant to Rule 13a-14(a)/ 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.3	Certification by Principal Accounting Officer pursuant to Rule 13a-14(a)/ 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification by Principal Executive Officer, Principal Financial Officer and Principal Accounting Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101	The following materials from the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2013 formatted in Extensible Business Reporting Language (XBRL): (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Operations, (iii) the Consolidated Statements of Cash Flows and (iv) related notes.

Table of Contents

SIGNATURES

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

Date: May 13, 2013

NEOGENOMICS, INC.

By: */s/ Douglas M. VanOort*

Name: Douglas M. VanOort

Title: Chairman and
Chief Executive Officer

By: */s/ George Cardoza*

Name: George Cardoza

Title: Chief Financial Officer

By: */s/ Edwin F. Weidig III*

Name: Edwin F. Weidig III

Title: Director of Finance and
Principal Accounting Officer