

NEOGENOMICS INC
Form 10-Q
November 04, 2014
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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 September 30, 2014.

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)

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)
(239) 768-0600

33913
(Zip Code)

(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 ☐

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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 October 31, 2014, the registrant had 59,971,565 shares of Common Stock, par value \$0.001 per share outstanding.

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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, would and similar words 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 II, Item 1A, Risk Factors in this Quarterly Report on Form 10-Q and 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 24, 2014.

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 and proposed changes to those levels;

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 including increasing downward pressure on health care reimbursement;

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;

Our ability to integrate acquired businesses;

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;

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)**

	September 30, 2014	December 31, 2013
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 34,366	\$ 4,834
Accounts receivable (net of allowance for doubtful accounts of \$5,471 and \$4,540 respectively)	18,297	18,653
Inventories	2,970	2,301
Deferred income tax asset, net	588	588
Other current assets	1,022	1,115
Total current assets	57,243	27,491
PROPERTY AND EQUIPMENT (net of accumulated depreciation of \$18,416 and \$14,478, respectively)	14,637	9,694
INTANGIBLE ASSETS (net of accumulated amortization of \$606 and \$405, respectively)	4,236	2,577
GOODWILL	2,561	
OTHER ASSETS	143	154
TOTAL ASSETS	\$ 78,820	\$ 39,916
<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>		
CURRENT LIABILITIES		
Accounts payable	\$ 6,287	\$ 4,177
Accrued compensation	3,410	2,337
Other accrued expenses and liabilities	1,100	741
Short-term portion of equipment capital leases	3,157	2,786
Revolving credit line		4,282
Total current liabilities	13,954	14,323
LONG TERM LIABILITIES		
Long-term portion of equipment capital leases and notes payable	5,213	3,294

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Deferred income tax liability, net	588	588
Total long term liabilities	5,801	3,882
TOTAL LIABILITIES	19,755	18,205
Commitments (Note I)		
STOCKHOLDERS' EQUITY		
Common stock, \$.001 par value, (100,000,000 shares authorized; 59,969,375 and 49,118,373 shares issued and outstanding at September 30, 2014 and December 31, 2013, respectively)	60	49
Additional paid-in capital	79,457	42,200
Accumulated deficit	(20,452)	(20,538)
Total stockholders' equity	59,065	21,711
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 78,820	\$ 39,916

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 September 30,		For the nine months ended September 30,	
	2014	2013	2014	2013
NET REVENUE	\$ 23,217	\$ 16,884	\$ 62,070	\$ 48,144
COST OF REVENUE	12,923	8,713	32,826	25,570
GROSS PROFIT	10,294	8,171	29,244	22,574
OPERATING EXPENSES				
General and administrative	6,370	4,335	17,295	12,573
Research and development	1,014	340	2,275	1,791
Sales and marketing	2,983	2,336	8,775	6,239
Total operating expenses	10,367	7,011	28,345	20,603
INCOME (LOSS) FROM OPERATIONS	(73)	1,160	899	1,971
INTEREST AND OTHER INCOME (EXPENSE) NET	(218)	(231)	(736)	(749)
INCOME (LOSS) BEFORE TAXES	(291)	929	163	1,222
INCOME TAXES		29	78	46
NET INCOME (LOSS)	\$ (291)	\$ 900	\$ 85	\$ 1,176
NET INCOME (LOSS) PER SHARE				
- Basic	\$ (0.01)	\$ 0.02	\$ 0.00	\$ 0.02
- Diluted	\$ (0.01)	\$ 0.02	\$ 0.00	\$ 0.02
WEIGHTED AVG NUMBER OF SHARES OUTSTANDING				
- Basic	54,444	48,933	51,272	48,007
- Diluted	54,444	53,173	53,926	52,599

See notes to unaudited consolidated financial statements.

Table of Contents**NEOGENOMICS, INC.****CONSOLIDATED STATEMENTS OF CASH FLOWS****(in thousands)****(unaudited)****For the Nine Months Ended
September 30,
2014 2013****CASH FLOWS FROM OPERATING ACTIVITIES**

Net income	\$	85	\$	1,176
Adjustments to reconcile net income to net cash provided by operating activities:				
Provision for bad debts		2,044		1,966
Amortization of intangibles		200		168
Depreciation of property and equipment		3,938		3,115
Amortization of debt issue costs		66		36
Stock-based compensation options		566		393
Stock-based compensation warrants and restricted stock		173		137
Changes in assets and liabilities, net:				
(Increase) decrease in accounts receivable, net of write-offs		12		(3,659)
(Increase) decrease in inventories		(582)		(209)
(Increase) decrease in other current assets		93		(320)
(Increase) decrease in other assets		39		(95)
Increase (decrease) in accounts payable and other liabilities		1,830		24

NET CASH PROVIDED BY OPERATING ACTIVITIES		8,464		2,732
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CASH FLOWS FROM INVESTING ACTIVITIES

Acquisition, net of cash acquired		(5,829)		
Purchases of property and equipment		(2,719)		(1,486)

NET CASH USED IN INVESTING ACTIVITIES		(8,548)		(1,486)
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CASH FLOWS FROM FINANCING ACTIVITIES

Advances (payments) on credit facility, net		(4,282)		(5,722)
Repayment of capital leases and loans		(2,632)		(1,868)
Issuance of common stock for the exercise of stock options and warrants		2,100		393
Issuance of common stock for cash, net of transaction expenses		34,430		9,012

NET CASH PROVIDED BY FINANCING ACTIVITIES		29,616		1,815
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NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		29,532		3,061
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CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	4,834	1,868
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 34,366	\$ 4,929
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid	\$ 770	\$ 715
Income taxes paid	\$ 170	\$ 19
NON-CASH INVESTING AND FINANCING ACTIVITIES		
Equipment leased under capital leases	\$ 4,824	\$ 1,816

See notes to unaudited consolidated financial statements.

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NEOGENOMICS, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

AS OF SEPTEMBER 30, 2014

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**), operates as 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, 2013, filed with the Securities and Exchange Commission on February 24, 2014.

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, including normal recurring adjustments that are necessary for a fair statement of the results of all interim periods reported herein.

NOTE B SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

The Company prepares its consolidated financial statements in conformity with accounting principles generally accepted in the United States of America. 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, intangible assets, 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.

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, supplies, inventory and payment for samples to complete validation studies. These expenses were incurred to develop new genetic tests.

Table of Contents**Intangible Assets**

Intangible assets with finite useful lives are recorded at cost, less accumulated amortization. We have four 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 using the straight-line method. We periodically review the estimated pattern in which the economic benefits will be consumed and adjust the amortization period and pattern to match our estimate. The Company's intangible assets are related to the customer relationships of Path Labs, LLC and to our license agreement with Health Discovery Corporation.

Goodwill

Accounting Standard Codification (ASC) Topic 350, Intangibles—Goodwill and Other, requires that goodwill is not amortized to expense, but rather that it be tested for impairment at least annually. Impairment write-downs are charged to results of operations in the period in which the impairment is determined. If certain events occur which might indicate goodwill has been impaired, the goodwill is tested for impairment when such events occur. We have not identified any such events and, accordingly, have not tested goodwill for impairment during the nine months ended September 30, 2014. We will complete our annual impairment test during the fourth quarter of 2014.

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 September 30, 2014, all of the affiliated client office locations from Florida Cancer Specialists (FCS) combined, represented approximately 7.9% of our revenue compared to 16.5% of revenue for the three months ended September 30, 2013. For the nine months ended September 30, 2014, all of the affiliated client office locations from FCS combined, represented 10.5% of our revenue compared to 15.8% of revenue for the nine months ended September 30, 2013. On April 22, 2014 we entered into a second amendment to the Strategic Laboratory Services Agreement with FCS. Under the terms of the Agreement, FCS agreed that, subject to certain exceptions, it would first offer to have us perform all cytogenetics and molecular testing services on cancer specimens from FCS's 72 practice locations before either performing such services in its own laboratory or referring such specimens to other laboratories. FCS also agreed, subject to certain exceptions, that it would first offer to have us perform any other cancer genetic testing services not otherwise performed by FCS's internal laboratory before referring such specimens to other laboratories. The Agreement extends the current contract through December 31, 2015, but will automatically renew for additional one year terms thereafter, unless either party gives the other party six months' prior written notice of non-renewal. We anticipate that FCS will continue to internalize tests we currently perform for them, and our concentration as a percentage of revenue will decline. All other clients were less than 5% of total revenue individually. For the three months ended September 30, 2014, revenue derived from the State of Florida represented approximately 22.0% of revenue compared to 29.5% of revenue for the three months ended September 30, 2013. For the nine months ended September 30, 2014, revenue derived from the State of Florida represented approximately 25.6% of revenue compared to 30.9% of revenue for the nine months ended September 30, 2013.

Net Income (Loss) Per Common Share

Basic net income (loss) per share is computed using the weighted average number of common shares outstanding during the applicable 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. Diluted net (loss) per share is computed using the weighted average number of common shares outstanding during the applicable period. Potential common stock is excluded from diluted net (loss) per share as such amounts are anti-dilutive. Calculations of net income (loss) per share are done using the treasury stock method.

Income Taxes

We compute income taxes in accordance with ASC Topic 740 Income Taxes. Under ASC-740, deferred taxes are recognized for the tax consequences of temporary differences by applying enacted statutory rates applicable to future

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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 and lives for property and equipment, and the timing of recognition of bad debts and various other expenses that have been accrued for financial statement purposes but are not currently deductible for income tax purposes.

Each reporting period 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, if deemed necessary. 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 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 benefit that has a greater than 50% likelihood of being 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. As of September 30, 2014 we do not believe we had any significant uncertain tax positions nor did we have any provision for interest or penalties related to such positions.

Recently Issued Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board issued Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers (ASU 2014-09) to provide guidance on revenue recognition. ASU 2014-09 requires a company to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. In doing so, companies will need to use more judgment and make more estimates than under current guidance. These may include identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. ASU 2014-09 is effective in the first quarter of fiscal 2017. Early adoption is not permitted. Upon adoption, ASU 2014-09 can be applied retrospectively to all periods presented or only to the most current period presented with the cumulative effect of changes reflected in the opening balance of retained earnings in the most current period presented. The Company is currently evaluating the impact of adopting ASU 2014-09 on its consolidated financial statements.

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.

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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.) 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.

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

On January 24, 2014 the Borrower and CapitalSource entered into a Third Amendment (the Third Amendment) to the Amended and Restated Credit Agreement. The terms of the Third Amendment amended Annex I of the credit agreement to delete the definition of Cash Velocity Percentage in its entirety and to replace it with the following:

Cash Velocity Percentage shall mean (a) 80% for the period beginning December 31, 2012 and ending on March 31, 2013, (b) 75% for the period beginning December 1, 2013 and ending on March 31, 2014 and (c) 87.5% at all other times.

We paid Capital Source a commitment fee of \$5,000 in connection with the Third Amendment.

On July 8, 2014 NeoGenomics Laboratories, (Borrower) Path Labs, LLC, (New Borrower) and CapitalSource entered into a Joinder and Fourth Amendment (the Fourth Amendment) to the Amended and Restated Credit Agreement. The fourth amendment added the New Borrower to the credit agreement and allowed for them to borrow under the facility. All other terms of the credit agreement remained unchanged.

On August 26, 2014 we repaid all outstanding amounts and terminated the facility. We paid Capital Source termination fees of \$61,000 in connection with the termination. We also wrote off unamortized debt issuance costs of approximately \$37,000.

NOTE D ACQUISITION

On July 8, 2014, NeoGenomics Laboratories, Inc., (NeoGenomics Laboratories) a wholly-owned subsidiary of the registrant NeoGenomics, Inc. (referred to individually as the Parent Company or collectively with its subsidiaries as NeoGenomics or the Company) entered into a membership interest purchase agreement with Path Labs, LLC d/b/a Path Logic, a Delaware limited liability company (Path Logic), and Path Labs Holdings, LLC, a Delaware limited liability company (PL Holdings), whereby NeoGenomics Laboratories acquired all of the outstanding equity ownership interests in Path Logic from PL Holdings for a purchase price (in thousands) of \$5,908. NeoGenomics Laboratories paid the purchase price using cash on hand and borrowings on its revolving credit facility.

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The following table summarizes the consideration paid and presents the preliminary allocation of these amounts to the net tangible and identifiable intangible assets based on the estimated fair values as of the acquisition date. Any excess of the purchase price over the estimated fair value of the net assets acquired has been recorded as goodwill. These allocations require the significant use of estimates and are based on the information that was available to management at the time these consolidated financial statements were prepared. The final determination of these fair values will be completed as soon as possible but no later than one year from the acquisition date. Although the final determination may result in asset and liability fair values that are different than the preliminary estimates of these amounts included herein, it is not expected that those differences will be material to an understanding of the impact of this transaction to our financial results.

Estimated Preliminary Acquisition Consideration Allocation (in thousands)

Current assets, including cash and cash equivalents of \$79	\$ 1,881
Property, plant and equipment	804
Identifiable intangible assets customer relationships	1,860
Goodwill	2,561
 Total assets acquired	 7,106
Current liabilities	(1,185)
Long-term liabilities	(13)
 Net assets acquired	 \$ 5,908

The amounts above are considered preliminary and are subject to change once NeoGenomics receives certain information it believes is necessary to finalize its determination of the fair value of assets acquired and liabilities assumed under the acquisition method. Thus these amounts are subject to refinement, and additional adjustments to record fair value of all assets acquired and liabilities assumed may be required.

Acquired intangible assets of \$1.86 million consist of customer relationships which are being amortized over thirteen years. We recorded approximately \$33,000 of amortization expense in the three and nine months ended September 30, 2014.

The estimated amortization expense related to the acquired intangible assets for each of the five succeeding fiscal years and thereafter as of September 30, 2014 is as follows (in thousands):

Year Ending December 31,	
Remainder of 2014	\$ 36
2015	143
2016	143
2017	143
2018	143
2019	143
Thereafter	1,076

Total

\$ 1,827

The goodwill arising from the acquisition of Path Logic includes revenue synergies as a result of our existing customers and Path Logic's customers having access to each other's testing menus and capabilities. It also arises from the new product lines which Path Logic adds to the Company's product portfolio.

We incurred approximately \$361,000 of due diligence and transaction related expenses during the three and nine months ended September 30, 2014. These costs included pre-acquisition due diligence costs and transaction related expenses. These costs were included in general and administrative expenses in our consolidated statements of operations for the three and nine months ended September 30, 2014.

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The following unaudited pro forma information (in thousands) have been provided for illustrative purposes only and are not necessarily indicative of results that would have occurred had the Acquisition been in effect since January 1, 2013, nor are they necessarily indicative of future results.

	Three Months Ended September 30, 2014		Nine Months Ended September 30, 2014	
	2014	2013	2014	2013
Revenue	\$ 23,405	\$ 19,469	\$ 67,289	\$ 56,351
Net income (loss)	(35)	219	(450)	(1,272)
Earnings (loss) per share				
Basic	\$ (0.00)	\$ 0.00	\$ (0.01)	\$ (0.03)
Diluted	\$ (0.00)	\$ 0.00	\$ (0.01)	\$ (0.03)

The unaudited pro forma consolidated results during the three and nine months ended September 30, 2014 and 2013 have been prepared by adjusting our historical results to include the Acquisition as if it occurred on January 1, 2013. These unaudited pro forma consolidated historical results were then adjusted for the following:

adjustments to reflect the impact of \$361,000 of transaction costs related to the 2014 acquisition as of January 1, 2013,

a net reduction in amortization expense during the three and nine months ended September 30, 2014 and 2013 due to decreased intangible assets recorded related to the acquisition,

a net reduction in interest expense during the three and nine months ended September 30, 2014 and 2013 as we did not acquire the existing debt from the acquisition offset by our interest expense on net borrowings under capital leases and notes payable,

a net reduction in depreciation expense during the three and nine months ended September 30, 2014 and 2013 due to decreased fixed asset values recorded related to the acquisition,

a net reduction in general and administrative expenses for the three and nine months ended September 30, 2014 and 2013 to remove the management fees from the private equity company and the Chief Executive Officer's salary from the results,

a net reduction to adjust for the tax effect of the losses that were acquired which is based on an estimate of the state income taxes and federal alternate minimum tax which would not be required based on the losses for all periods.

As noted above, the unaudited pro forma results of operations do not purport to be indicative of the actual results that would have been achieved by the combined company for the periods presented or that may be achieved by the combined company in the future.

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Intangible assets as of September 30, 2014 and December 31, 2013 consisted of the following (in thousands):

	Weighted			
	Average			
	Amortization			
	Period		September 30, 2014	
		COST	Accumulated	Net
			Amortization	
Customer Relationships	156 months	\$ 1,860	\$ 33	\$ 1,827
Support Vector Machine (SVM) technology	108 months	\$ 500	\$ 153	\$ 347
Laboratory developed test (LDT) technology	164 months	\$ 1,482	\$ 270	\$ 1,212
Flow Cytometry and Cytogenetics technology	202 months	\$ 1,000	\$ 150	\$ 850
Total		\$ 4,842	\$ 606	\$ 4,236

	Weighted			
	Average			
	Amortization			
	Period		December 31, 2013	
		COST	Accumulated	Net
			Amortization	
Support Vector Machine (SVM) technology	108 months	\$ 500	\$ 112	\$ 388
Laboratory developed test (LDT) technology	164 months	\$ 1,482	\$ 188	\$ 1,294
Flow Cytometry and Cytogenetics technology	202 months	\$ 1,000	\$ 105	\$ 895
Total		\$ 2,982	\$ 405	\$ 2,577

We recorded approximately \$89,000 and \$56,000 in straight-line amortization expense of intangibles for the three months ended September 30, 2014 and 2013, respectively, and approximately \$200,000 and \$168,000 in straight-line amortization expense of intangibles for the nine months ended September 30, 2014 and 2013, respectively, as research and development and general and administrative expenses in the consolidated statement of operations. We will record the amortization of customer relationships as a general and administrative expense. We will continue to record the amortization of the Support Vector Machine (SVM) technology, the Laboratory developed tests (LDT) technology and the Flow Cytometry and Cytogenetics technology intangibles as a research and development expense 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.

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The estimated amortization expense related to amortizable intangible assets for each of the five succeeding fiscal years and thereafter as of September 30, 2014 is as follows (in thousands):

Year Ending December 31,	
Remainder of 2014	\$ 92
2015	366
2016	366
2017	366
2018	366
2019	366
Thereafter	2,314
Total	\$ 4,236

NOTE F REVENUE RECOGNITION AND CONTRACTUAL ADJUSTMENTS

The Company recognizes revenues when (a) the price is fixed or determinable, (b) persuasive evidence of an arrangement exists, (c) the service is performed and (d) collectability of the resulting receivable is reasonably assured.

The Company's specialized diagnostic services are performed based on a written test requisition form or electronic equivalent, and revenues are recognized once the diagnostic services have been performed, and the results have been delivered to the ordering physician. These diagnostic services are billed to various payers, including Medicare, commercial insurance companies, other directly billed healthcare institutions such as hospitals and clinics, and individuals. The Company reports revenues from contracted payers, including Medicare, certain insurance companies and certain healthcare institutions, based on the contractual rate, or in the case of Medicare, published fee schedules. The Company reports revenues from non-contracted payers, including certain insurance companies and individuals, based on the amount expected to be collected. The difference between the amount billed and the amount estimated to be collected from non-contracted payers is recorded as an allowance to arrive at the reported net revenues. The expected revenues from non-contracted payers are based on the historical collection experience of each payer or payer group, as appropriate. The Company records revenues from patient pay tests net of a large discount and as a result recognizes minimal revenue on those tests. The Company regularly reviews its historical collection experience for non-contracted payers and adjusts its expected revenues for current and subsequent periods accordingly.

The table below shows the adjustments made to gross service revenue to arrive at net revenues (in thousands), the amount reported on our statement of operations.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Gross Service Revenues	\$ 60,660	\$ 45,159	\$ 159,665	\$ 129,625
Total Contractual Adjustments and Discounts	(37,443)	(28,275)	(97,595)	(81,481)

Net Revenues	\$ 23,217	\$ 16,884	\$ 62,070	\$ 48,144
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During the three months ended September 30, 2014, we were able to grow revenue by 37.5% on a year over year basis, despite a \$1,150,000 reduction in revenue recorded to account for a conservative interpretation of policy edits issued earlier in the year from the National Correct Coding Initiative (NCCI) relating to the appropriate number of billing units for certain FISH testing reimbursable by Medicare. During the nine months ended September 30, 2014, we were able to grow revenue by 28.9% on a year over year basis, despite a \$2,900,000 reduction in revenue recorded to account for a conservative interpretation of the NCCI FISH edits. The National Correct Coding Initiative NCCI FISH testing edits were issued in December 2013, effective as of January 1, 2014, and created a contradiction with respect to long-established billing practices for FISH testing. The new FISH edits suggest that the number of billable units that laboratories should bill for certain multi-probe FISH tests is less than the previously established guidance which is still in effect. The Company and The American Clinical Laboratory Association (ACLA) have asked the Centers for Medicare and Medicaid Services (CMS) to provide further guidance with respect to this contradictory new policy, and CMS officials have acknowledged the need to issue a clarification, but have yet to do so. A favorable clarification from CMS with respect to these NCCI FISH edits would result in us being able to bill in future periods for all or a portion of the previously unbilled \$2,900,000 of FISH testing services that were foregone in the first nine months of 2014.

NOTE G NET INCOME (LOSS) PER SHARE

The following table provides the computation of basic and diluted net income (loss) per share for the three and nine month periods ending September 30, 2014 and 2013: (in thousands, except per share amounts)

	Three Months Ended September 30, 2014		Nine Months Ended September 30, 2014	
	2014	2013	2014	2013
Net income (loss)	\$ (291)	\$ 900	\$ 85	\$ 1,176
Basic weighted average shares outstanding	54,444	48,933	51,272	48,007
Effect of potentially dilutive securities		4,240	2,654	4,592
Diluted weighted average shares outstanding	54,444	53,173	53,926	52,599
Basic net income (loss) per share	\$ (0.01)	\$ 0.02	\$ 0.00	\$ 0.02
Diluted net income (loss) per share	\$ (0.01)	\$ 0.02	\$ 0.00	\$ 0.02

For the nine months ended September 30, 2014, 50,000 outstanding options were excluded from the calculation of diluted earnings per share due to anti-diluted affects as compared to 154,000 and 144,000 options for the three and nine months ended September 30, 2013 that were excluded in the calculation of diluted earnings per share due to anti-diluted affects.

NOTE H EQUITY**Public Offering of Common Stock**

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In August 2014, the Company completed an offering of 8,050,000 shares of registered common stock, at a price of \$4.60 per share, for gross proceeds of approximately \$37.0 million. The Company received approximately \$34.5 million in net proceeds after deducting underwriting fees and offering costs of approximately \$2.5 million. The Company plans to use the net proceeds for working capital, capital expenditures and for general corporate purposes including potential acquisitions and the repayment of debt.

Stock Options

As of September 30, 2014, options to purchase 3,934,878 shares of our common stock were outstanding. The exercise prices of these options range from \$0.31 to \$5.99 per share.

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Common Stock Warrants

On February 7, 2014 Gulfpointe Capital exercised 83,333 warrants to purchase shares of NeoGenomics common stock at an exercise price of \$0.75 per share. The Company received proceeds of \$62,500 from the exercise.

On March 12, 2014 Douglas M. VanOort exercised 375,000 warrants to purchase shares of NeoGenomics common stock at an exercise price of \$1.05 per share. The Company received proceeds of \$393,750 from the exercise. On March 16, 2014, 250,000 warrants issued to Douglas M. VanOort expired unvested because performance requirements were not met.

As of September 30, 2014, warrants to purchase 650,000 shares of our common stock were outstanding. The exercise prices of these warrants range from \$1.43 to \$1.50 per share.

NOTE I RESTRICTED STOCK AWARDS

On April 15, 2014, the Company granted 125,000 shares of restricted stock to Douglas M. VanOort. Such restricted shares vest on the third anniversary of the grant date so long as Mr. VanOort remains Chairman and Chief Executive Officer of the Company. The fair market value of the grant of restricted stock on award date was deemed to be \$381,250 or \$3.05 per share, which was the closing price of the Company's common stock on the day before the grant as approved by the board of directors.

On April 15, 2014 the Company granted each of the four independent directors 3,000 shares of restricted stock for a total of 12,000 shares. Such restricted stock will vest ratably over each of the next four quarters so long as the director still serves as a member of the board of directors. The fair market value of each grant of restricted stock on award date was deemed to be \$9,150 or \$3.05 per share, which was the closing price of the Company's common stock on the day before the grant as approved by the board of directors.

NOTE J COMMITMENTS

NeoGenomics entered into a master lease agreement with Pacific Western Equipment Finance for the leasing of up to \$2.0 million of equipment on an equipment leasing line. The lease has a term of 36 months and a lease rate factor of 0.03076. We committed to purchase approximately \$1.7 million of equipment during the nine months ended September 30, 2014. The lease contains \$1 buyout options at the end of the term.

During the three months ended September 30, 2014 we entered into two lease schedules with Wells Fargo Equipment Finance for approximately \$917,000 for the purchase of laboratory and computer equipment. The lease schedules have 48 month terms with \$1 buy-out options at the end of term and interest rates in the range between 4.50% and 4.65%.

During the three and nine months ended September 30, 2014 we also entered into lease schedules with several vendors for approximately \$186,000 and \$974,000 for the purchase of laboratory equipment, computer equipment and computer software, some of which have yet to be delivered to us. The leases have 36 month terms with \$1 buyout options at the end of the terms and interest rates in the range between 1.0% and 15.9%.

During the nine months ended September 30, 2014 we also entered into an equipment finance agreement for approximately \$227,000 for the purchase of lab benches and furniture. The equipment finance agreement has a 60 month term and an interest rate of 8.9%.

NOTE K OTHER RELATED PARTY TRANSACTIONS

During the three months ended September 30, 2014 and 2013, Steven C. Jones, a director of the Company, earned approximately \$67,000 and \$62,500, respectively, for various consulting work performed in connection with his duties as Executive Vice President of Finance. During the nine months ended September 30, 2014 and 2013, Steven C. Jones, a director of the Company, earned approximately \$197,000 and \$187,500, respectively, for various consulting work performed in connection with his duties as Executive Vice President of Finance. Mr. Jones received a \$25,000 bonus for his work with respect to the \$9.2 million equity raise during the nine months ended September 30, 2013. Mr. Jones also received \$47,500 and \$80,000 during the nine months ended September 30, 2014 and 2013 for his work on the equity raise described above and as payment of his annual bonus compensation for the previous fiscal years, respectively.

Table of Contents**NOTE L SUBSEQUENT EVENTS**

On October 31, 2014 the Centers for Medicare and Medicaid Services (CMS) released CMS-1612-FC, a new final rule with comment period (the Proposed Rule) entitled Medicare Program; Revisions to Payment Policies under the Physician Fee Schedule, Clinical Laboratory Fee Schedule, Access to Identifiable Data for the Center for Medicare and Medicaid Innovation Models & Other Revisions to Part B for CY 2015 . This 1,185 page Proposed Rule contains a number of provisions that may adversely impact the level of reimbursement for a variety of fluorescent in-situ hybridization (FISH) and Immunohistochemistry (IHC) tests for which NeoGenomics receives reimbursement from the Medicare program beginning on January 1, 2015. Among other things, CMS is proposing to utilize the following new and modified Current Procedural Terminology (CPT) codes for FISH & IHC that were recently released by the American Medical Association (AMA):

Modified CPT Codes (modifications shown in italics):

- 88342 Immunohistochemistry or immunocytochemistry, per specimen; *initial single antibody stain procedure*
- 88367 Morphometric analysis, in situ hybridization (quantitative or semi-quantitative), using computer assisted technology, per specimen; *initial single probe stain procedure*
- 88368 Morphometric analysis, in situ hybridization (quantitative or semi-quantitative), manual, per specimen; *initial single probe stain procedure*

New CPT Codes

- 88341 Immunohistochemistry or immunocytochemistry, per specimen; each additional single antibody stain procedure
- 88344 Immunohistochemistry or immunocytochemistry, per specimen; each multiplex antibody stain procedure
- 88369 Morphometric analysis, in situ hybridization (quantitative or semi-quantitative), manual, per specimen; each additional single probe stain procedure
- 88373 Morphometric analysis, in situ hybridization (quantitative or semi-quantitative), using computer assisted technology, per specimen; each additional single probe stain procedure
- 88374 Morphometric analysis, in situ hybridization (quantitative or semi-quantitative), using computer assisted technology, per specimen; each multiplex probe stain procedure
- 88377 Morphometric analysis, in situ hybridization (quantitative or semi-quantitative), manual, per specimen; each multiplex probe stain procedure

Although no formal guidance has been issued by the AMA yet with respect to how/when to apply the above new/modified CPT codes, we believe NeoGenomics will be required to separate out the first FISH probe staining procedure from additional probe staining procedures or multiplex probe (ie, multiple probes contained in the same vial of reagent) staining procedures. This framework is similar to the framework introduced by the National Correct Coding Initiative (NCCI) in December 2013, which NeoGenomics has been voluntarily following, except that a new CPT code for multiplex FISH probe staining procedures has now been introduced. Under this framework, we believe that modified CPT Code 88367/68 (automated/manual) will be required to be used for the first single probe staining

procedure and new CPT code 88373/69 will be required to be used for each additional probe staining procedure unless multiple probes are applied to a slide simultaneously, in which case the new multiplex CPT Codes 88374/77 will be required to be used.

The IHC framework is similar to this new FISH framework. We believe that modified CPT Code 88342 will replace CPT Code G0461, and the new 88341 CPT Code will replace CPT Code G0462 unless a multiplex antibody stain (multiple antibodies in the same vial of reagent) is being applied to an IHC slide, in which case the new multiplex CPT code 88344 will be required to be used.

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Although, final reimbursement rates for the Physician Fee Schedule (PFS) for 2015 have not been released yet, Addendum C of the Proposed Rule contains the Interim Final Relative Value Units (RVUs) for each of the above codes. Although we are still assessing the Proposed Rule, if the Interim Final RVUs contained in Addendum C of the Proposed Rule are enacted as drafted, we preliminarily estimate that that there could be a 20-30% further reduction in our FISH reimbursements for Medicare Beneficiaries in 2015. During the first 9 months of 2014, we recorded approximately \$4.4 million of FISH revenue for tests performed for Medicare Beneficiaries.

The Proposed Rule including the Interim Final RVUs is subject to a 60 day comment period, ending on December 30, 2014, and we are in the process of preparing a comment letter with our feedback. We also plan to collaborate with the American Clinical Laboratory Association and other industry participants to voice our strong opposition to the Proposed Rule.

The final CY 2015 PFS is not expected to be issued until January 2015, and it is likely we will not know the final rates for the above modified and new CPT codes until that time.

END OF FINANCIAL STATEMENTS.

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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, we, us, our 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 facts, are forward-looking statements subject to certain risks and uncertainties that could cause actual results to differ materially from those anticipated in such 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; Fresno, Irvine, and West Sacramento, 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 answer diagnostic, prognostic and predictive questions in the treatment of hematological malignancies and solid tumors;
- 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. FISH helps bridge abnormality detection between the chromosomal and DNA sequence levels;
- 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, real-time polymerase chain reaction (RT-PCR) RNA analysis and Next-Generation sequencing.

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, viewing the cells, 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.

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Our Focus: Grow, Innovate, Diversify and Get Lean

Grow

We plan to continue growing organically by providing 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 services, and our tech-only service offering allows these larger clinician practices to also participate in the diagnostic process by performing the professional interpretation services on testing they do not perform in their own laboratory.

In July 2014 we acquired Path Labs, LLC d/b/a Path Logic a leading provider of specialized anatomic pathology services to hospitals and physicians in Northern California. Path Logic provides high-quality Anatomic Pathology services with significant expertise in the sub-specialties of renal pathology, dermatopathology, women's health and gastrointestinal and genitourinary pathology. For 2013, Path Logic reported revenue of approximately \$10 million and employed approximately 65 people. We recognized revenue of approximately \$2.4 million for the period of ownership from July 8, 2014 through September 30, 2014 from this acquisition. We estimate that \$3.0 to 4.0 million of annual revenue opportunities can be realized in relatively short order as a result of our existing customers and Path Logic's customers having access to each other's testing menus and capabilities.

We will also look to grow our business through other mergers or acquisitions if the right opportunities become available. We are focused on strategic opportunities that would be complementary to our menu of services and would be accretive to our earnings in a short timeframe. We completed an equity raise of \$34.5 million in August of 2014 to provide cash to be used for future acquisition opportunities when they become available.

Innovate

We are committed to being an innovative leader in oncology testing. 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 the nine months ended September 30, 2014 we introduced an additional 40 new molecular and FISH based tests and cancer profiles. We also converted another 23 tests to next-generation sequencing (NGS). We launched our multimodality solid tumor Discovery Profile which analyzes 315 genes for

mutation using NGS and includes 9 FISH tests to analyze translocations, amplifications and deletions that might be missed by NGS. This Discovery Profile is designed to meet the needs of investigators and clinicians who are interested in testing large numbers of genes and numerous translocations and gene amplifications. It also meets the needs of pharmaceutical companies engaged in clinical trials. This multimodality testing is unique in the industry and provides the gold standard FISH testing for detecting therapy-related abnormalities, such as ALK translocations, and HER2 and MET amplifications, each of which is required to be confirmed by FISH prior to initiating expensive therapy. We also recently launched two first-in-kind tests. The first predicts acquired resistance and susceptibility to Bruton Tyrosin Kinase (BTK) inhibitors. The second is a lymphoma profiling test to predict susceptibility to BTK inhibitors for treatment of lymphoma and Chronic Lymphocytic

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Luekema. BTK inhibitors are a new non-cytotoxic targeted therapy and a number of Phase III studies are ongoing. In fact, these tests are a good example of the compelling value proposition of genetic testing. New targeted therapies can be very effective and quite expensive, and these tests help physicians choose the right therapy for the individual patient. They substantially improve cancer care and help avoid therapies that will not be effective. Our clients have been very receptive to our new molecular offerings and we believe that we have the most comprehensive clinical molecular test menu of any laboratory in the United States. We are also seeing increasing interest in our molecular menu from several pharmaceutical firms. 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™ profiles that combine multiple molecular tests into multi-gene tests targeting specific types of cancer to help pathologists and oncologists determine cancer subtypes on difficult cases. We use next generation sequencing and bi-directional sanger 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.

We are working on developing a proprietary NeoLAB™ (Liquid Alternative to Biopsy) Prostate cancer test that is performed on blood plasma and urine rather than on prostate tissue biopsies. There are two goals for this test, a) to diagnose the presence of cancer in patients with BPH (Benign prostatic hyperplasia) and b) to distinguish high-grade from low-grade cancer in patients with prostate cancer. We completed a preliminary patient study in June 2013, and the results were recently published in March 2014 in the Genetic Testing and Molecular Biomarkers journal. In addition, in February 2014, we completed a follow up study with additional patient samples which confirmed the published preliminary data from the first trial. We are also expanding our work to include patient samples from outside the United States. While further validation work needs to be completed, we continue to be encouraged about the potential for this new test. The NeoLAB™ test is available for ordering for patients who want to participate in the ongoing clinical trial agreement on the condition that their treating physician must provide clinical utilization and follow-up data to us as part of the testing process. We are targeting to test another 600-800 patients in this manner, and to add another 200 patients as part of a trial currently underway in Europe. We are planning a full launch of the NeoLAB™ prostate test in 2015.

In addition, over the last year we believe we have vastly improved our immunohistochemistry offering, brought up a new digital imaging platform and launched several new FISH tests including a 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 the future. We also expect to continue to make investments in R&D that will allow us to commercialize a number of new and innovative genetic tests as we move forward.

In January 2012, we entered into a license agreement with Health Discovery Corporation (HDC) to license certain Support Vector Machine / Recursive Feature Elimination technology (SVM-RFE). We believe 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 and other proprietary tests. 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. We intend to launch a test for prostate cancer in 2015. We are also developing a Cytogenetics Interpretation System using the SVM technology that we believe will result in substantial cost savings and open up the opportunity for sub-licensing revenue in future years.

Diversify

Our third focus in 2014 is diversification. In November 2013, we announced an exclusive alliance with Covance Central Laboratories (Covance) to provide comprehensive anatomic pathology, histology and specialty laboratory testing services for clinical trials. Covance is the largest contract research organization servicing the needs of the pharmaceutical industry. Through this alliance, Covance's clients will gain access to fully integrated anatomic pathology and histology (APH) services, including immunohistochemistry (IHC), fluorescence in-situ hybridization (FISH) and molecular testing. Covance will establish a laboratory at NeoGenomics' Fort Myers, Florida facility and together with NeoGenomics, will provide a full range of APH, tissue based biomarkers and other specialty testing services. The companies will then expand joint capabilities globally at Covance's central laboratory locations in Shanghai, China; Geneva, Switzerland; and Singapore. As part of the alliance, Covance will have access to NeoGenomics' extensive medical and scientific networks, which includes more than 500 pathologists. NeoGenomics gains access to Covance's broad market reach, established client relationships, and extensive clinical trials experience. We believe this alliance will provide seamless global testing services supporting oncology and companion diagnostics strategies for biopharmaceutical firms around the world. We

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have expanded our facility in Fort Myers, Florida to provide the capacity to grow this alliance with Covance and to provide quality testing for global clinical trials. NeoGenomics has ongoing clinical trials with international pharmaceutical firms and working along with Covance will allow us to work on trials on a global basis.

We have been able to diversify our product lines with over 90 new molecular tests and profiles launched over the last two years. During 2014 we have launched 40 new molecular and FISH based tests and converted another 23 tests to NGS. We believe these new advanced cancer-profiling tools offer oncologists and pathologists a more targeted and comprehensive ability to tailor cancer testing to an individual patient's needs than has ever been available before.

Get Lean

We are focused on becoming more efficient and reducing our cost per test. Our best practice teams work with our information technology teams to make improvements in efficiencies to our lab processes. We are using information systems and technology to move NeoGenomics further along the path of being a fully digital lab, that uses on-line ordering, bar coding, specimen tracking, and other tools to create a streamlined, seamless, and efficient lab. We also completed a facility upgrade to our Fort Myers, Florida lab location and we expect this upgrade to increase our efficiencies and reduce our cost per test for NeoGenomics, Inc. excluding Path Logic (Base Business). These Lean initiatives are having an impact on our cost structure. During the first nine months of 2014, we have reduced our average cost of goods sold per test for our Base Business by 7.5% versus the comparable period in 2013.

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

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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.

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 better interpret technical data and render their diagnosis. 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. 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. We also have launched next generation sequencing in 2014. 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

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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.

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 six facilities, three large laboratory locations in Fort Myers, Florida, West Sacramento, California and Irvine, California and three smaller laboratory locations in Fresno, California, Nashville, Tennessee and Tampa, Florida. Our objective is to operate one lab with six locations in order to deliver standardized, high quality, 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.

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, 2013.

Table of Contents**Results of Operations for the Three and Nine Months Ended September 30, 2014 as Compared to the Three and Nine Months Ended September 30, 2013**

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

	For the three months ended		For the nine months ended	
	September 30,		September 30,	
	2014	2013	2014	2013
NET REVENUE	100.0%	100.0%	100.0%	100.0%
COST OF REVENUE	55.7%	51.6%	52.9%	53.1%
GROSS PROFIT	44.3%	48.4%	47.1%	46.9%
OPERATING EXPENSES:				
General and administrative	27.4%	25.7%	27.9%	26.1%
Research and development	4.4%	2.0%	3.7%	3.7%
Sales and marketing	12.8%	13.8%	14.1%	13.0%
TOTAL OPERATING EXPENSES	44.6%	41.5%	45.7%	42.8%
INCOME (LOSS) FROM OPERATIONS	(0.3)%	6.9%	1.4%	4.1%
INTEREST AND OTHER INCOME (EXPENSE)				
NET	(0.9)%	(1.4)%	(1.2)%	(1.6)%
NET INCOME (LOSS) BEFORE INCOME TAXES	(1.2)%	5.5%	0.2%	2.5%
INCOME TAXES	0.0%	0.2%	0.1%	0.1%
NET INCOME (LOSS)	(1.2)%	5.3%	0.1%	2.4%

Revenue

The following table shows the requisition, tests and revenue for our Base Business:

Supplemental Information on Customer Requisitions Received and Tests Performed

(in thousands, except test and requisition amount)

	For the three months ended September 30,			For the nine months ended September 30,		
Base Business	2014	2013	% Inc (Dec)	2014	2013	% Inc (Dec)

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Requisitions Rec d (cases)	28,493	21,737	31.1%	82,551	63,216	30.6%
Number of Tests Performed	44,975	33,723	33.4%	129,184	98,330	31.4%
Avg. # of Tests / Requisition	1.58	1.55	1.7%	1.56	1.56	0.6%
Total Testing Revenue	\$ 20,835	\$ 16,884	23.4%	\$ 59,688	\$ 48,144	24.0%
Avg Revenue/Requisition	\$ 731	\$ 777	(5.9)%	\$ 723	\$ 762	(5.1)%
Avg Revenue/Test	\$ 463	\$ 501	(7.5)%	\$ 462	\$ 490	(5.6)%

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The following table shows the requisitions and revenue for Path Logic for the corresponding periods in 2014:

Supplemental Information on Customer Requisitions Received

(in thousands, except requisition amount)

Path Logic (1)	For the three and nine months ended September 30, 2014
Requisitions Received (cases)	19,623
Total Testing Revenue	\$ 2,382
Avg Revenue/Requisition	\$ 121

(1) These Path Logic requisition counts and revenue are for the period from our acquisition on July 8, 2014 through September 30, 2014

Our increase in test counts in our Base Business for the three and nine months ended September 30, 2014 when compared to the three and nine months ended September 30, 2013 was primarily the result of adding new client accounts. We have been able to gain market share due to our expanded testing menu and better service levels compared to other labs. Revenue increased by 37.5% for the three months ended September 30, 2014 when compared to the comparable period in 2013, because of the increase in clients described above and due to the acquisition of Path Logic resulting in \$2.4 million of revenue or 14.1% of the increase in revenue. We had organic revenue growth of 23% during the third quarter. The revenue amount for Path Logic is for the period from our acquisition on July 8, 2014 through September 30, 2014. Our existing clients continue to respond favorably to our expanded Molecular testing menu and an increase in Molecular test orders also helped us to achieve 58.9% growth in our molecular testing volumes over last year's third quarter. Average revenue per test on our Base Business for the three month period ended September 30, 2014 declined 7.5% from the comparable period in 2013 primarily as a result of the NCCI FISH edits. The National Correct Coding Initiative (NCCI) FISH testing edits were issued in December 2013, effective as of January 1, 2014, and created a contradiction with respect to long-established billing practices for FISH testing. The new FISH edits suggest that the number of billable units that laboratories should bill for certain multi-probe FISH tests is less than the previously established guidance which is still in effect. The Company and The American Clinical Laboratory Association (ACLA) have asked the Centers for Medicare and Medicaid Services (CMS) to provide further guidance with respect to this contradictory new policy, and CMS officials have acknowledged the need to issue a clarification, but have yet to do so. A favorable clarification from CMS with respect to these NCCI FISH edits would result in us being able to bill in future periods for all or a portion of the previously unbilled \$1,150,000 and \$2,900,000 of FISH testing services that were foregone in the three and nine months of 2014. Revenue for the nine months ended September 30, 2014 increased by 28.9% when compared with the comparable period last year. Organic revenue growth was 24% with the Path Logic acquisition adding 4.9% of revenue growth. Testing volumes for the first nine months of 2014 in our Base Business were up 31.4%, however overall unit price declined 5.6%. The price decline is again, primarily related to the NCCI FISH edits.

Cost of Revenue and Gross Profit

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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 consolidated cost of revenue and gross profit metrics for the three and nine months ended September 30, 2014 and 2013 are as follows:

NeoGenomics, Inc. Consolidated	For the three months ended September 30,			For the nine months ended September 30,		
	2014	2013	Change	2014	2013	Change
Cost of revenue	\$ 12,923,000	\$ 8,713,000	\$ 4,210,000	\$ 32,826,000	\$ 25,570,000	\$ 7,256,000
Cost of revenue as a % of revenue	55.7%	51.6%		52.9%	53.1%	
Gross Profit	\$ 10,294,000	\$ 8,171,000	\$ 2,123,000	\$ 29,244,000	\$ 22,574,000	\$ 6,670,000
Gross Profit as a % of revenue	44.3%	48.4%		47.1%	46.9%	

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The cost of revenue, gross profit and test metrics for our Base Business for the three and nine months ended September 30, 2014 and 2013 are as follows:

Base Business	For the three months ended September 30,			For the nine months ended September 30,		
	2014	2013	Change	2014	2013	Change
Cost of revenue	\$ 11,172,000	\$ 8,713,000	\$ 2,459,000	\$ 31,075,000	\$ 25,570,000	\$ 5,505,000
Cost of revenue as a % of revenue	53.6%	51.6%		52.1%	53.1%	
Gross Profit	\$ 9,664,000	\$ 8,171,000	\$ 1,493,000	\$ 28,613,000	\$ 22,574,000	\$ 6,039,000
Gross Profit as a % of revenue	46.4%	48.4%		47.9%	46.9%	
Cost of Revenue per Test	\$ 248	\$ 258	\$ (10)	\$ 241	\$ 260	\$ (19)
Gross Profit per Test	\$ 215	\$ 243	\$ (28)	\$ 221	\$ 230	\$ (9)

The cost of revenue and gross profit metrics for Path Logic for the period from July 8, 2014 to September 30, 2014 are as follows:

	For the three and nine months ended September 30, 2014
Path Logic (1)	
Cost of revenue	\$ 1,752,000
Cost of revenue as a % of revenue	73.5%
Gross Profit	\$ 630,000
Gross Profit as a % of revenue	26.5%

(1) These Path Logic cost of revenue and gross profit amounts are for the period from our acquisition on July 8, 2014 through September 30, 2014

Overall cost of revenue increased due to the increases in our testing volumes. Cost as a percentage of revenue increased by approximately 410 basis points for the three months ended September 30, 2014 and decreased by 20 basis points for the nine months ended September 30, 2014. The increase for the three months ended September 30, 2014 was primarily related to the impact of the Path Logic acquisition which has a 73.5% cost of revenue as a percentage of sales as well as increase in labor costs as a percentage of revenue. We believe that there are ways for the Path Logic laboratory to operate more efficiently as it is currently well below its full capacity. The decline for the nine months ended September 30, 2014 was driven by improved capacity planning and utilization along with several process improvements in the laboratory. We also saw growth in lower priced and lower cost molecular tests. We have completed a facility upgrade to our Fort Myers, Florida lab location and we expect this upgrade to reduce our cost per

test for our Base Business. The new laboratory design was aided by our Lean process teams and uses Lean principles to improve our operating efficiency. We are implementing additional Lean process initiatives, bar coding and scanning technology, new and improved instrumentation to further automate our laboratories, and new IT enhancements that will help us process more tests more effectively and efficiently. We believe that we will continue to see a reduction in average cost per test for our Base Business in future periods based on the activities of our best practice 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 September 30,			For the nine months ended September 30,		
	2014	2013	Change	2014	2013	Change
Sales and marketing	\$ 2,983,000	\$ 2,336,000	\$ 647,000	\$ 8,775,000	\$ 6,239,000	\$ 2,536,000
As a % of revenue	12.8%	13.8%		14.1%	13.0%	

Sales and marketing expenses increased approximately 27.7% for the three months ended September 30, 2014 as compared to the three months ended September 30, 2013 as a result of increased sales salaries and other sales costs from growing our sales team as well as the impact of the Path Logic acquisition on our sales costs. The sales and marketing expenses for Path Logic are from our period of acquisition on July 8, 2014 through September 30, 2014. Sales and marketing expenses increased approximately 40.6% for the nine months ended September 30, 2014 as compared to the nine months ended September 30, 2013 as a result of increases in salaries and related costs to expanding our sales team and sales costs from growing our sales team and to a lesser extent from the impact of the Path Logic acquisition on our sales costs.

We expect our overall sales and marketing expenses in dollars to increase modestly with increased test volumes. As a percentage of revenue we expect our expenses to increase slightly in future quarters.

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 September 30,			For the nine months ended September 30,		
	2014	2013	Change	2014	2013	Change
General and administrative	\$ 6,370,000	\$ 4,335,000	\$ 2,035,000	\$ 17,295,000	\$ 12,573,000	\$ 4,722,000
As a % of revenue	27.4%	25.7%		27.9%	26.1%	

General and administrative expenses increased by 47.0% for the three months ended September 30, 2014 as compared to the three months ended September 30, 2013. General and administrative expenses increased approximately 37.6% for the nine months ended September 30, 2014 as compared to the nine months ended September 30, 2013. The increase in general and administrative expenses for the three months ended September 30, 2014 is primarily a result of adding information technology and billing personnel to support the increase in our testing volumes, facility costs, recruiting costs as well as increases in professional and corporate fees partially offset by decreases in bad debt expense. The professional and corporate fees described above included one-time expenses of approximately \$473,000

related to acquisitions or potential acquisitions and approximately \$98,000 related to terminating our credit facility. The increase in general and administrative expenses was also impacted by the acquisition of Path Logic which resulted in \$820,000 of general and administrative expenses which were not included in the previous year for the period from July 8, 2014 through September 30, 2014. The increase for the nine months ended September 30, 2014 is primarily a result of adding information technology and billing personnel to support the increase in testing volumes, facility costs as well as increases in professional and corporate fees and the impact of the Path Logic acquisition. The expenses for the nine months ended September 30, 2014 also included the one-time expenses described above for the three months ended September 30, 2014.

Bad debt expense decreased by approximately 60.3%, or approximately \$349,000 to \$230,000 for the three months ended September 30, 2014 as compared to approximately \$579,000 for the three months ended September 30, 2013. This decrease was the result of strong cash collections during the quarter and from an increase in the ability to get paid for aged claims from previous experience. Bad debt expense increased by approximately 4.0%, or approximately \$78,000 to \$2,044,000 for the nine months ended September 30, 2014 as compared to approximately \$1,966,000 for the nine months ended September 30, 2013. Our bad debt rate as a percentage of sales was 3.3% for the nine months ended September 30, 2014 compared to 4.1% last year. This improvement was driven by an increased focus on our billing function and their improved performance.

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We expect our overall general and administrative expenses to increase in dollars, 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. As a percentage of revenue, we expect general and administrative expenses to fall slightly in future quarters.

Research and Development Expenses

Research and development expenses relate to cost of developing new proprietary and non-proprietary genetic tests as well as cost related to our licensing agreement with Health Discovery Corporation, including amortization of the licensed technology.

	For the three months ended			For the nine months ended		
	September 30,			September 30,		
	2014	2013	Change	2014	2013	Change
Research and development	\$ 1,014,000	\$ 340,000	\$ 674,000	\$ 2,275,000	\$ 1,791,000	\$ 484,000
As a % of revenue	4.4%	2.0%		3.7%	3.7%	

Research and development expenses increased approximately 198.0% for the three months ended September 30, 2014 as compared to the three months ended September 30, 2013. The increase in research and development expenses is primarily a result of an increase in stock-based compensation expense for non-employee stock options and warrants for the three months ended September 30, 2014 which resulted from the 57% increase in our stock price and its corresponding effect on our stock-based compensation expense. Research and development expenses increased approximately 27.0% for the nine months ended September 30, 2014 as compared to the nine months ended September 30, 2013. The increase is primarily a result of an increase in stock-based compensation expense for non-employee stock options and warrants.

We expect our research and development expenses to fluctuate in future quarters because of increases or decreases in our stock price and the corresponding stock compensation expense for non-employee stock options and warrants. Increases in our stock price result in additional expense and decreases in our stock price can result in recovery of previously recorded expense. We expect to continue to invest in innovation and research and development in future quarters and expenses will increase slightly as a percentage of sales.

Interest and Other (Income) Expense

Interest and other (income) expense primarily consists of the interest expense we incur on our borrowing arrangements (primarily comprised of interest 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 from approximately \$231,000 for the three months ended September 30, 2013 to \$272,000 for the three months ended September 30, 2014. Net interest expense increased from approximately \$749,000 in the nine months ended September 30, 2013 to \$793,000 for the nine months ended September 30, 2014. This reflects interest payments on capital leases which have increased for the corresponding periods. With the repayment of our bank loan facility we expect interest expense to decline slightly in future quarters.

Table of Contents**Net Income (Loss)**

The following table provides the net income (loss) for each period along with the computation of basic and diluted net income (loss) per share for the three and nine month periods ending September 30, 2014 and 2013:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Net income (loss)	\$ (291,000)	\$ 900,000	\$ 85,000	\$ 1,176,000
Basic weighted average shares outstanding	54,444,000	48,933,000	51,272,000	48,007,000
Effect of potentially dilutive securities		4,240,000	2,654,000	4,592,000
Diluted weighted average shares outstanding	54,444,000	53,173,000	53,926,000	52,599,000
Basic net income (loss) per share	\$ (0.01)	\$ 0.02	\$ 0.00	\$ 0.02
Diluted net income (loss) per share	\$ (0.01)	\$ 0.02	\$ 0.00	\$ 0.02

Non-GAAP Measures

Adjusted EBITDA is defined by NeoGenomics as net income (loss) 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, (v) transaction expenses related to acquisitions and potential acquisitions, (vi) costs related to terminating our credit facility, and (vii) 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.

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The following is a reconciliation of GAAP net income (loss) to Non-GAAP EBITDA and Adjusted EBITDA for the three and nine months ending September 30, 2014 and 2013:

	For the three months ended September 30,		For the nine months ended September 30,	
	2014	2013	2014	2013
Net income (loss) (Per GAAP)	\$ (291,000)	\$ 900,000	\$ 85,000	\$ 1,176,000
<i>Adjustments to Net Income (Loss):</i>				
Interest expense (income), net	272,000	231,000	793,000	749,000
Income taxes		29,000	78,000	46,000
Amortization of intangibles	89,000	56,000	200,000	168,000
Depreciation and amortization	1,538,000	1,063,000	3,938,000	3,114,000
EBITDA	1,608,000	2,279,000	5,094,000	5,253,000
<i>Further Adjustments to EBITDA:</i>				
Non-cash stock-based compensation	457,000	(116,000)	738,000	530,000
Acquisition related transaction expense	473,000		473,000	
Costs of terminating credit facility	98,000		98,000	
Adjusted EBITDA (non-GAAP)	\$ 2,636,000	\$ 2,163,000	\$ 6,403,000	\$ 5,783,000
Adjusted EBITDA as % of Revenue	11.4%	12.8%	10.3%	12.0%

Trade Accounts Receivable and Allowance for Doubtful Accounts

The following tables present the dollars and percentage of the Company's gross accounts receivable from customers outstanding by aging category at September 30, 2014 and December 31, 2013:

NEOGENOMICS AGING OF RECEIVABLES BY PAYER GROUP

September 30, 2014

Group	0-30	%	31-60	%	61-90	%	91-120	%	>120	%	Total
Commercial	\$ 2,222,648	10%	\$ 2,742,770	11%	\$ 1,504,724	7%	\$ 947,897	4%	\$ 996,228	4%	\$ 8,414,267
Finance	1,430,011	6%	1,025,672	5%	861,977	4%	753,599	3%	5,120,553	21%	9,191,812
Healthcare	53,019	0%	83,180	0%	67,472	0%	71,652	0%	528,258	3%	803,581
Insurance	980,357	4%	465,417	2%	338,716	1%	348,591	2%	2,086,465	9%	4,219,546
Other	23,555	0%	21,912	0%	15,190	0%	17,599	0%	36,028	0%	114,284
Total	1,024,851	4%		%		0%		%		%	1,024,851

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\$ 5,734,441	24%	\$ 4,338,951	18%	\$ 2,788,079	12%	\$ 2,139,338	9%	\$ 8,767,532	37%	\$ 23,768,341	1
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December 31, 2013

Group	0-30	%	31-60	%	61-90	%	91-120	%	>120	%	Total	%
Commercial	\$ 2,716,164	11%	\$ 1,728,152	7%	\$ 1,232,594	6%	\$ 581,713	3%	\$ 905,057	4%	\$ 7,163,680	3%
Finance	341,364	2%	985,446	4%	740,250	3%	557,269	2%	3,883,242	17%	6,507,571	28%
Leased	21,509	0%	75,820	0%	76,713	0%	87,291	0%	285,383	2%	546,716	2%
Lease Pay	349,224	2%	1,016,452	5%	1,169,982	5%	636,039	3%	3,057,915	13%	6,229,612	26%
Other	8,562	0%		%	11,459	0%	1,661	0%	88,416	0%	110,098	0%
Total	2,634,940	11%		%		%		%		%	2,634,940	11%
	\$ 6,071,763	26%	\$ 3,805,870	16%	\$ 3,230,998	14%	\$ 1,863,973	8%	\$ 8,220,013	36%	\$ 23,192,617	100%

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

	September 30, 2014	December 31, 2013	Change
Allowance for doubtful accounts	\$ 5,471,000	\$ 4,540,000	\$ 931,000
As a % of total accounts receivable	23.0%	19.6%	

At September 30, 2014 our allowance for doubtful accounts increased \$931,000 as compared to December 31, 2013. 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 23.0% at September 30, 2014 from 19.6% at December 31, 2013. This increase is the result of leaving claims open longer in an effort to collect them. The corresponding allowance increases at the same time increasing our allowance for doubtful accounts. Our days-sales-outstanding have fallen from 94 days on December 31, 2013 to 73 days on September 30, 2014. This was driven by improved performance by our billing function and reduced backlogs.

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 nine months ended September 30, 2014 and 2013 as well as the period ending cash and cash equivalents and working capital.

	For the nine months ended September 30,	
	2014	2013
Net cash provided by (used in):		
Operating activities	\$ 8,464,000	\$ 2,732,000
Investing activities	(8,548,000)	(1,486,000)
Financing activities	29,616,000	1,815,000
Net increase (decrease) in cash and cash equivalents	29,532,000	3,061,000
Cash and cash equivalents, beginning of period	\$ 4,834,000	\$ 1,868,000
Cash and cash equivalents, end of period	\$ 34,366,000	\$ 4,929,000
Working Capital (1), end of period	\$ 43,289,000	\$ 11,581,000

(1) Defined as current assets minus current liabilities.

Our net cash provided by operating activities is driven primarily by our depreciation, improved accounts receivable collections, provision for bad debts and increases in our accounts payable and other liabilities.

We used approximately \$2.7 million in cash to purchase or develop property and equipment during the nine months ended September 30, 2014 compared to \$1.5 million for the comparable period in 2013. We also used \$5.8 million of cash to acquire Path Logic (net of cash acquired) in 2014, although we did initially fund this purchase using a combination of cash on hand and borrowings on our revolving credit facility.

Our cash provided by financing activities for the nine months ended September 30, 2014 consisted primarily of net cash proceeds (after costs) of \$34.6 million from the equity raise we completed in August of 2014 partially offset by the pay-down on our revolving credit facility with Capital Source upon termination of the credit facility and the repayment of capital leases and loans.

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 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;

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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 Amended and Restated Credit 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.

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:

- 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.

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

On January 24, 2014 the Borrower and CapitalSource entered into a Third Amendment (the Third Amendment) to the Amended and Restated Credit Agreement. The terms of the Third Amendment amended the Annex I of the credit agreement to delete the definition of Cash Velocity Percentage in its entirety and to replace it with the following:

Cash Velocity Percentage shall mean (a) 80% for the period beginning December 31, 2012 and ending on March 31, 2013, (b) 75% for the period beginning December 1, 2013 and ending on March 31, 2014 and (c) 87.5% at all other times.

We paid Capital Source a commitment fee of \$5,000 in connection with the Third Amendment.

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On July 8, 2014 the Borrower, Path Labs, LLC, (New Borrower) and CapitalSource entered into a Joinder and Fourth Amendment (the Fourth Amendment) to the Amended and Restated Credit Agreement. The Fourth Amendment added the New Borrower to the credit agreement and allowed for them to borrow under the facility. All other terms of the credit agreement remained unchanged.

On July 8, 2014, NeoGenomics Laboratories, Inc., a Florida corporation (Neo Labs), a wholly-owned subsidiary of the registrant NeoGenomics, Inc., a Nevada corporation (the NeoGenomics), entered into a membership interest purchase agreement with Path Labs, LLC d/b/a Path Logic, a Delaware limited liability company (Path Logic), and Path Labs Holdings, LLC, a Delaware limited liability company (PL Holdings), whereby Neo Labs acquired all of the outstanding equity ownership interests in Path Logic from PL Holdings for a purchase price of \$6.0 Million less its capital lease liabilities assumed. These capital lease liabilities were estimated to be approximately \$100,000, therefore consideration was approximately \$5.9 Million. Neo Labs paid the purchase price using cash on hand and borrowings on its revolving credit facility.

In August 2014, the Company completed an offering of 8,050,000 shares of registered common stock, at a price of \$4.60 per share, for gross proceeds of approximately \$37.0 million. The Company received approximately \$34.5 million in net proceeds after deducting underwriting fees and offering costs of approximately \$2.5 million. The Company plans to use the net proceeds for working capital, capital expenditures and for general corporate purposes including potential acquisitions.

On August 26, 2014, we repaid all outstanding amounts and terminated the facility. We paid Capital Source termination fees of \$61,000 in connection with the termination. We also wrote off unamortized debt issuance costs of approximately \$37,000.

In addition to having a positive cash flow from operations, we had over \$34.3 million in cash on hand as of September 30, 2014. 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 \$8.2 million to \$9.2 million of additional capital equipment during the next year. We plan to fund these purchases primarily through capital lease financing arrangements. If we are unable to obtain such funding at acceptable interest rates, we will need to pay cash for these items.

Related Party Transactions

Consulting Agreements

During the three months ended September 30, 2014 and 2013, Steven C. Jones, a director of the Company, earned approximately \$67,000 and \$62,500, respectively, for various consulting work performed in connection with his duties as Executive Vice President of Finance. During the nine months ended September 30, 2014 and 2013, Steven C. Jones, a director of the Company, earned approximately \$197,000 and \$187,500, respectively, for various consulting work performed in connection with his duties as Executive Vice President of Finance. Mr. Jones received a \$25,000 bonus for his work with respect to the \$9.2 million equity raise during the nine months ended September 30, 2013. Mr. Jones also received \$47,500 and \$80,000 during the nine months ended September 30, 2014 and 2013 for his work on the equity raise described above and as payment of his annual bonus compensation for the previous fiscal years, respectively.

Subsequent Events **Proposed FY2015 Medicare Reimbursement**

On October 30, 2014, during our third quarter 2014 analyst s earnings call, we stated our commitment to being a low-cost provider in each of our core testing modalities and outlined a number of measures we are undertaking to increase productivity and reduce costs. We also reiterated our commitment to reduce average cost-of-goods-sold-per-test by 8-10% on an annual basis through 2015.

On October 31, 2014 the Centers for Medicare and Medicaid Services (CMS) released CMS-1612-FC, a new final rule with comment period (the Proposed Rule) entitled Medicare Program; Revisions to Payment Policies under the

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Physician Fee Schedule, Clinical Laboratory Fee Schedule, Access to Identifiable Data for the Center for Medicare and Medicaid Innovation Models & Other Revisions to Part B for CY 2015 . This 1,185 page Proposed Rule contains a number of provisions that may adversely impact the level of reimbursement for a variety of fluorescent in-situ hybridization (FISH) and Immunohistochemistry (IHC) tests for which NeoGenomics receives reimbursement from the Medicare program beginning on January 1, 2015. Among other things, CMS is proposing to utilize the following new and modified Current Procedural Terminology (CPT) codes for FISH & IHC that were recently released by the American Medical Association (AMA):

Modified CPT Codes (modifications shown in italics):

- 88342 Immunohistochemistry or immunocytochemistry, per specimen; *initial single antibody stain procedure*
- 88367 Morphometric analysis, in situ hybridization (quantitative or semi-quantitative), using computer assisted technology, per specimen; *initial single probe stain procedure*
- 88368 Morphometric analysis, in situ hybridization (quantitative or semi-quantitative), manual, per specimen; *initial single probe stain procedure*

New CPT Codes

- 88341 Immunohistochemistry or immunocytochemistry, per specimen; each additional single antibody stain procedure
- 88344 Immunohistochemistry or immunocytochemistry, per specimen; each multiplex antibody stain procedure
- 88369 Morphometric analysis, in situ hybridization (quantitative or semi-quantitative), manual, per specimen; each additional single probe stain procedure
- 88373 Morphometric analysis, in situ hybridization (quantitative or semi-quantitative), using computer assisted technology, per specimen; each additional single probe stain procedure
- 88374 Morphometric analysis, in situ hybridization (quantitative or semi-quantitative), using computer assisted technology, per specimen; each multiplex probe stain procedure
- 88377 Morphometric analysis, in situ hybridization (quantitative or semi-quantitative), manual, per specimen; each multiplex probe stain procedure

Although no formal guidance has been issued by the AMA yet with respect to how/when to apply the above new/modified CPT codes, we believe NeoGenomics will be required to separate out the first FISH probe staining procedure from additional probe staining procedures or multiplex probe (ie, multiple probes contained in the same vial of reagent) staining procedures. This framework is similar to the framework introduced by the National Correct Coding Initiative (NCCI) in December 2013, which NeoGenomics has been voluntarily following, except that a new CPT code for multiplex FISH probe staining procedures has now been introduced. Under this framework, we believe that modified CPT Code 88367/68 (automated/manual) will be required to be used for the first single probe staining procedure and new CPT code 88373/69 will be required to be used for each additional probe staining procedure unless multiple probes are applied to a slide simultaneously, in which case the new multiplex CPT Codes 88374/77 will be required to be used.

The IHC framework is similar to this new FISH framework. We believe that modified CPT Code 88342 will replace CPT Code G0461, and the new 88341 CPT Code will replace CPT Code G0462 unless a multiplex antibody stain (multiple antibodies in the same vial of reagent) is being applied to an IHC slide, in which case the new multiplex CPT code 88344 will be required to be used.

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Although, final reimbursement rates for the Physician Fee Schedule (PFS) for 2015 have not been released yet, Addendum C of the Proposed Rule contains the Interim Final Relative Value Units (RVUs) for each of the above codes. Although we are still assessing the Proposed Rule, if the Interim Final RVUs contained in Addendum C of the Proposed Rule are enacted as drafted, we preliminarily estimate that there could be a 20-30% further reduction in our FISH reimbursements for Medicare Beneficiaries in 2015. During the first 9 months of 2014, we recorded approximately \$4.4 million of FISH revenue for tests performed for Medicare Beneficiaries.

The Proposed Rule including the Interim Final RVUs is subject to a 60 day comment period, ending on December 30, 2014, and we are in the process of preparing a comment letter with our feedback. We also plan to collaborate with the American Clinical Laboratory Association and other industry participants to voice our strong opposition to the Proposed Rule.

The final CY 2015 PFS is not expected to be issued until January 2015, and it is likely we will not know the final rates for the above modified and new CPT codes until that time.

ITEM 3 Quantitative and Qualitative Disclosures About Market Risk

We do not invest in or trade instruments which are sensitive to market risk. We also do not have any material foreign operations or foreign sales so we have no exposure to foreign currency exchange rate risk.

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 Quarterly Report on Form 10-Q. 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.

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 September 30, 2014 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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.

ITEM 1A RISK FACTORS

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 24, 2014. The following risk factors have changed since we filed our Annual Report on Form 10-K and may materially harm our business, financial condition and results of operations.

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We frequently develop testing procedures to provide diagnostic results to clients that cannot currently be provided using test kits approved by the U.S. Food and Drug Administration, or FDA. The FDA has been considering changes to the way that it regulates these Laboratory Developed Tests, or LDTs. Currently all LDTs are conducted and offered in accordance with Clinical Laboratory Improvements Amendments, or CLIA, and individual state licensing procedures. The FDA is considering requiring FDA clearance or approval of a subset of LDTs, as well as a modified approach that may require FDA oversight short of the full approval process. There are currently no formal definitions or regulations on how such approvals would be requested and granted, but there is a risk that such a process could delay the offering of certain tests and result in additional validation costs and fees. There is also an associated risk for us that some tests currently offered might become subject to the prior approval of the FDA. This FDA approval process would be time-consuming and costly, with no guarantee of ultimate approval success.

On July 31, 2014 the FDA issued a notification to Congress of the Anticipated Details of the Draft Guidance for Industry, Food and Drug Administration Staff, and Clinical Laboratories: Framework for Regulatory Oversight of Laboratory Developed Tests (LDTs). As described in this notification, the FDA planned to provide draft guidance to clinical laboratories that develop their own LDTs regarding how FDA intends to regulate such laboratories under the Federal Food, Drug, and Cosmetic Act. On October 3, 2014 the FDA issued the draft guidance to clinical laboratories. The regulatory framework will use a risk-based approach to enforce the FDA's premarket review requirements, and for high-risk tests, the framework may require laboratories to use FDA-approved tests, if available, rather than LDTs. If implemented, the framework may also require us to obtain premarket clearance or approval for certain of our LDTs. Implementation of this framework would include a lengthy phase-in period ranging from two to nine years depending on the risk assessment rating of each particular test. The FDA has provided an opportunity for public comment through February 2015 before the guidance is finalized. We anticipate the Agency will receive numerous comments on this issue, and the regulatory framework ultimately implemented by the FDA may differ substantially from the framework described in the draft guidance. This FDA regulation may result in increased regulatory burdens for us to continue to offer our tests or to develop and introduce new tests and may increase our costs.

If we were required to conduct additional clinical trials prior to continuing to sell our current tests or launching any other tests we may develop, those trials could result in delays or failure to obtain necessary regulatory approvals, which could harm our business.

When the FDA begins to regulate our tests, it may require additional pre-market clinical testing prior to submitting a regulatory notification or application for commercial sales. Such pre-market clinical testing could delay the commencement or completion of clinical testing, significantly increase our test development costs, delay commercialization of any future tests, and interrupt sales of our current tests. Many of the factors that may cause or lead to a delay in the commencement or completion of clinical trials may also ultimately lead to delay or denial of regulatory clearance or approval. The commencement of clinical trials may be delayed due to insufficient patient enrollment, which is a function of many factors, including the size of the patient population, the nature of the protocol, the proximity of patients to clinical sites and the eligibility criteria for the clinical trial.

We may find it necessary to engage contract research organizations to perform data collection and analysis and other aspects of our clinical trials, which might increase the cost and complexity of our trials. We may also depend on clinical investigators, medical institutions and contract research organizations to perform the trials. If these parties do not successfully carry out their contractual duties or obligations or meet expected deadlines, or if the quality, completeness or accuracy of the clinical data they obtain is compromised due to the failure to adhere to our clinical protocols or for other reasons, our clinical trials may have to be extended, delayed or terminated. Many of these

factors would be beyond our control. We may not be able to enter into replacement arrangements without undue delays or considerable expenditures. If there are delays in testing or approvals as a result of the failure to perform by third parties, our research and development costs would increase, and we may not be able to obtain regulatory clearance or approval for our tests. In addition, we may not be able to establish or maintain relationships with these parties on favorable terms, if at all. Each of these outcomes would harm our ability to market our tests, or to achieve sustained profitability.

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Steps taken by government payers, such as Medicare and Medicaid to control the utilization and reimbursement of healthcare services, including esoteric testing may diminish our net revenue.

We face efforts by government payers to reduce utilization as well as reimbursement for laboratory testing services. Changes in governmental reimbursement may result from statutory and regulatory changes, retroactive rate adjustments, administrative rulings and other policy changes.

From time to time, legislative freezes and updates affect some of our tests that are reimbursed by the Medicare program under the Medicare Physician Fee Schedule or Clinical Laboratory Fee Schedule. The Medicare Physician Fee Schedule, which is updated on an annual basis using a prescribed statutory formula, is subject to significant reductions in reimbursement unless Congress intervenes. In the past, when the application of the statutory formula resulted in lower payments, Congress has passed interim legislation to prevent the reductions. The most recent legislative intervention passed was Protecting Access to Medicare Act of 2014, or PAMA, which provided for a 0.5% update from 2013 MPFS payment rates through 2014 and a 0% update from January 1 until April 1, 2015. If Congress fails to intervene to prevent the negative update factor in future years, the resulting decrease in payment may adversely affect our revenue, business, operating results, financial condition and prospects.

In addition, recent laws make changes to Medicare reimbursement for our tests that are reimbursed under the Clinical Laboratory Fee Schedule, or CLFS, many of which have already gone into effect. The Affordable Care Act includes a reduction in the annual update factor used to adjust payments under the CLFS for inflation. This update factor reflects the consumer price index for all urban consumers, or CPI-U, and the ACA reduces the CPI-U by 1.75% for the years 2011 through 2015. The Affordable Care Act also imposes a multifactor productivity adjustment in addition to the CPI-U, which may further reduce payment rates. Further, in February 2012, the Middle Class Tax Relief and Job Creation Act of 2012 was passed, which, among other things, reduced the update to the CLFS by an additional 2% for CY 2013, and rebased payments at the reduced rate for subsequent years. Overall, when adding this 2% reduction to the Affordable Care Act's adjustments, the payment rates under the CLFS declined by 2.95% and 0.75% for 2013 and 2014, respectively. This reduction does not include the additional sequestration adjustment.

Most recently, on April 1, 2014, the Protecting Access to Medicare Act of 2014, or PAMA, was signed to law, which, among other things, is expected to significantly alter the current payment methodology under the CLFS. Under the new law, reporting could begin as early as January 1, 2016 and every three years thereafter (or annually in the case of advanced diagnostic lab tests), clinical laboratories must report laboratory test payment data for each Medicare-covered clinical diagnostic lab test that it furnishes during a time period to be defined by future regulations. The reported data must include the payment rate (reflecting all discounts, rebates, coupons and other price concessions) and the volume of each test that was paid by each private payer (including health insurance issuers, group health plans, Medicare Advantage plans and Medicaid managed care organizations). Beginning in 2017, the Medicare payment rate for each clinical diagnostic lab test will be equal to the weighted median amount for the test from the most recent data collection period. The payment rate will apply to laboratory tests furnished by a hospital laboratory if the test is separately paid under the hospital outpatient prospective payment system. The payment will also apply to physician office laboratories for which a majority of revenue comes from the CLFS. Also for the years 2017 through 2019, the amount of reduction in the Medicare rate (if any) shall not exceed 10 percent from the prior year's rate and for the years 2020 through 2022, any reduction shall not exceed 15 percent from the prior year's rate. It is too early to predict the impact on reimbursement for our tests reimbursed under the CLFS.

Also under PAMA, the Centers for Medicare & Medicaid Services, or CMS, is required to adopt temporary billing codes to identify new tests and new advanced diagnostic laboratory tests that have been cleared or approved by the FDA. For an existing test that is cleared or approved by the FDA and for which Medicare payment is made as of April 1, 2014, CMS is required to assign a unique billing code if one has not already been assigned by the agency. In

addition to assigning the code, CMS must publicly report payment for the tests no later than January 1, 2016. We cannot determine at this time the full impact of the new law on our business, financial condition and results of operations.

CMS also adopts policies, from time to time, limiting or excluding coverage for certain of the tests that we perform. Likewise, many state governments are under budget pressures and are also considering reductions to their Medicaid fees. Further, Medicare, Medicaid and other third party payers audit for overutilization of billed services. Even though all tests performed by us are ordered by our clients, who are responsible for establishing the medical necessity for the tests

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ordered, we may be subject to recoupment of payments, as the recipient of the payments for such tests, in the event that a third party payer such as CMS determines that the tests failed to meet all applicable criteria for payment. When third party payers like CMS revise their coverage policies, our costs generally increase due to the complexity of complying with additional administrative requirements. Furthermore, Medicaid reimbursement and regulations vary by state. Accordingly, we are subject to varying administrative and billing regulations, which also increase the complexity of servicing such programs and our administrative costs. Finally, state budget pressures have encouraged states to consider several courses that may impact our business, such as delaying payments, restricting coverage eligibility, service coverage restrictions and imposing taxes on our services.

In certain jurisdictions, Palmetto GBA, a Medicare administrative contractor, administers the Molecular Diagnostic Services Program, or MoIDX, and establishes coverage and reimbursement for certain molecular diagnostic tests, including many of our tests. To obtain coverage for an established molecular diagnostic test or LDT, laboratories must apply for and obtain a unique test identifier. For newly developed tests or for established tests that have not been validated for clinical and analytical validity and clinical utility, laboratories must submit a detailed dossier of clinical data to substantiate that the test meets Medicare's requirements for coverage. We have received favorable coverage for many of our molecular tests, however we have also received non-coverage determination for many newer tests. The field of molecular diagnostics is evolving very rapidly, and clinical studies on many new tests are still underway. We cannot be assured that some of our molecular tests will ever be covered services by Medicare, nor can we determine when the medical literature will meet the standard for coverage that Palmetto GBA has set.

In recent years, Medicare has encouraged beneficiaries to participate in managed care programs, known as Medicare Advantage programs, and has encouraged beneficiaries from the traditional fee-for-service Medicare program to switch to Medicare Advantage programs. This has resulted in rapid growth of health insurance and managed care plans offering Medicare Advantage programs and growth in Medicare beneficiary enrollment in these programs. Also in recent years, many states have increasingly mandated that Medicaid beneficiaries enroll in managed care arrangements. If these efforts continue to be successful, we may experience a further shift of traditional Medicare and Medicaid fee-for-service beneficiaries to managed care programs. As a result, we would be required to contract with those private managed care programs in order to be reimbursed for services to their Medicare and Medicaid members. There can be no assurance that we will be successful in entering into agreements with these managed care programs at rates of payment similar to those we realize from our non-managed care lines of business.

CMS has, as part of its regulatory structure, developed the National Correct Coding Initiative, or NCCI to promote national correct coding methodologies and to control improper coding leading to inappropriate payment in Medicare Part B claims. The most recent NCCI Coding Policy Manual resulted in changes in how we bill both FISH and immunohistochemistry testing. The language relates to what NCCI considers bundled services, and will impact the quantity of certain tests that are billed. NCCI limits the number of units we may bill for certain test codes which lowers the overall reimbursement we receive for that test. While many in the laboratory industry are not in agreement with the determination, there can be no assurance that CMS will make any modifications to the existing language. The AMA may adopt all or part of the NCCI definitions for FISH which could adversely impact our reimbursement from commercial insurance plans.

We expect the initiatives described above to continue and, if they do, to reduce reimbursements for clinical laboratory services, to impose more stringent cost controls on clinical laboratory services and to reduce utilization of clinical laboratory services. These efforts, including changes in law or regulations that may occur in the future, may each individually or collectively have a material adverse impact on our business, operating results, financial condition and prospects.

ITEM 2 UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None

ITEM 3 DEFAULTS UPON SENIOR SECURITIES

Not Applicable

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ITEM 4 MINE SAFETY DISCLOSURES

Not Applicable

ITEM 5 OTHER INFORMATION

None

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EXHIBIT NO.	DESCRIPTION	
2.1	Membership Interest Purchase Agreement, dated July 8, 2014 by and among NeoGenomics Laboratories, Inc., Path Labs, LLC and Path Labs Holdings, LLC	Incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K as filed with the SEC on July 11, 2014
3.1	Amended and Restated Bylaws, dated October 14, 2014	Incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K as filed with the SEC on October 17, 2014
10.1	Employment Agreement, dated September 18, 2014 by and between NeoGenomics, Inc. and Robert J. Shovlin	Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K as filed with the SEC on October 3, 2014
10.2	Confidentiality, Non-Solicitation and Non-Compete Agreement, dated September 18, 2014 by and between NeoGenomics, Inc. and Robert J. Shovlin	Incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K as filed with the SEC on October 3, 2014
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	Provided herewith
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	Provided herewith
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	Provided herewith
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	Provided herewith
99.1	Charter of the Compliance Committee of the Board of Directors of NeoGenomics, Inc., Adopted October 14, 2014	Incorporated by reference to Exhibit 99.1 to the Company's Current Report on Form 8-K as filed with the SEC on October 17, 2014
99.2	Charter of the Nominating and Corporate Governance Committee of the Board of Directors of NeoGenomics, Inc., Adopted October 14, 2014	Incorporated by reference to Exhibit 99.1 to the Company's Current Report on Form 8-K as filed with the SEC on October 17, 2014
101		Provided herewith

The following materials from the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2014 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.

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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: November 4, 2014

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