

NEOGENOMICS INC
Form 10-Q
November 13, 2017

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, 2017

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)

33913
(Zip Code)

(239) 768-0600

(Registrant's telephone number, including area code)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth 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
	Emerging Growth Company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 November 7, 2017, the registrant had 80,409,557 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 and its subsidiaries, NeoGenomics Laboratories, Inc., a Florida corporation (“NEO”, “NeoGenomics Laboratories”), NeoGenomics Bioinformatics Inc., a Florida corporation, and Clariant, Inc., a Delaware corporation and its wholly owned subsidiary, Clariant Diagnostic Services, Inc. (together “Clariant”) (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 expressions are intended to identify forward-looking statements, although not all forward-looking statements contain these identifying words. We may not actually achieve the plans, intentions or expectations disclosed in our forward-looking statements and you should not place undue reliance on our forward-looking statements. These forward-looking statements involve known and unknown risks and uncertainties that could cause our actual results, performance or achievements to differ materially from those expressed or implied by the forward-looking statements, including, without limitation, the risks set forth under “Risk Factors” and in Part I, Item 1A, “Risk Factors” contained in our Annual Report on Form 10-K as filed with the SEC on March 14, 2017.

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 regulations, state medical privacy laws, federal and state false claims laws and corporate practice of medicine laws;
 - Regulatory developments in the United States including downward pressure on health care reimbursement;
 - Our ability to maintain our license under the Clinical Laboratory Improvement Amendments of 1988 (“CLIA”);
 - Food and Drug Administration regulation of Laboratory Developed Tests (“LDTs”);
 - Failure to timely or accurately bill for our services;
 - 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 future acquisitions and costs related to such acquisitions;
 - The impact of internalization of testing by customers;
 - Our ability to maintain service levels and 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;
 - 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.

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PART I — FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

NEOGENOMICS, INC.

CONSOLIDATED BALANCE SHEETS

(in thousands, except share and per share amounts)

(unaudited)

ASSETS	September 30, 2017	December 31, 2016
Current assets		
Cash and cash equivalents	\$ 12,211	\$ 12,525
Accounts receivable (net of allowance for doubtful accounts of \$10,937 and \$13,699, respectively)	62,723	55,512
Inventories	6,088	6,253
Other current assets	4,725	4,535
Total current assets	85,747	78,825
Property and equipment (net of accumulated depreciation of \$37,496 and \$27,102, respectively)	34,549	34,036
Intangible assets, net	76,330	77,064
Goodwill	147,019	147,019
Other assets	250	174
Total assets	\$ 343,895	\$ 337,118
LIABILITIES, REDEEMABLE CONVERTIBLE PREFERRED STOCK AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$ 14,823	\$ 16,782
Accrued compensation	11,805	8,351
Accrued expenses and other liabilities	5,000	4,247

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Short-term portion of capital leases	4,687	4,891
Short-term portion of loans	3,799	3,842
Total current liabilities	40,114	38,113
Long-term liabilities		
Long-term portion of capital leases	4,583	5,378
Long-term portion of loans, net	67,531	70,259
Revolving credit facility, net	24,461	21,799
Deferred income tax liability, net	7,548	14,973
Total long-term liabilities	104,123	112,409
Total liabilities	144,237	150,522
Commitments and contingencies - see Note I		
Redeemable convertible preferred stock		
Series A Redeemable Convertible Preferred Stock, \$0.001 par value, (50,000,000 shares authorized; 6,600,000 shares issued and outstanding)	30,125	22,873
Stockholders' equity		
Common stock, \$0.001 par value, (250,000,000 shares authorized; 80,346,946 and 78,571,158 shares issued and outstanding, respectively)	80	79
Additional paid-in capital	229,006	216,104
Accumulated deficit	(59,553)	(52,460)
Total stockholders' equity	169,533	163,723
Total liabilities, redeemable convertible preferred stock and stockholders' equity	\$ 343,895	\$ 337,118

See notes to unaudited consolidated financial statements

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,	
	2017	2016	2017	2016
NET REVENUE				
Clinical testing	\$56,186	\$55,739	\$172,668	\$166,674
Pharma Services	6,866	5,022	18,150	16,919
Total Revenue	63,052	60,761	190,818	183,593
COST OF REVENUE	34,242	33,416	103,634	100,471
GROSS PROFIT	28,810	27,345	87,184	83,122
Operating expenses:				
General and administrative	23,267	19,025	66,743	55,810
Research and development	1,270	967	3,080	3,719
Sales and marketing	6,577	5,958	18,466	18,084
Loss on sale of Path Logic	1,058	—	1,058	—
Total operating expenses	32,172	25,950	89,347	77,613
INCOME (LOSS) FROM OPERATIONS	(3,362)	1,395	(2,163)	5,509
Interest expense, net	1,398	1,468	4,173	4,509
Income (loss) before taxes	(4,760)	(73)	(6,336)	1,000
Income tax (benefit) expense	340	(6)	(539)	500
NET INCOME (LOSS)	(5,100)	(67)	(5,797)	500
Deemed dividends on preferred stock	912	1,840	2,734	5,520
Amortization of preferred stock beneficial conversion feature	1,739	3,727	5,122	11,180
NET LOSS ATTRIBUTABLE TO COMMON STOCKHOLDERS	\$(7,751)	\$(5,634)	\$(13,653)	\$(16,200)
NET LOSS PER SHARE ATTRIBUTABLE TO COMMON STOCKHOLDERS				
Basic	\$(0.10)	\$(0.07)	\$(0.17)	\$(0.21)
Diluted	\$(0.10)	\$(0.07)	\$(0.17)	\$(0.21)

WEIGHTED AVERAGE COMMON SHARES OUTSTANDING: