

NEOGENOMICS INC  
Form 10-Q  
May 11, 2015  
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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 March 31, 2015.**

**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 May 5, 2015, the registrant had 60,368,672 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 subsidiaries, NeoGenomics Laboratories, Inc., a Florida corporation ( NEO , NeoGenomics Laboratories or the Subsidiary ) and Path Labs LLC, a Delaware Limited Liability Corporation ( Path Logic ) (collectively referred to as we , us , our , NeoGenomics , or the Company ), which are 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, 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 in Part I, Item 1A, Risk Factors in our Annual Report on Form 10-K as filed with the Securities and Exchange Commission on March 3, 2015.

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 );

Food and Drug Administration ( FDA ) regulation of Laboratory Developed Tests;

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 acquired businesses and costs related to such acquisitions;

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;

Our ability to generate sufficient cash flow from our license agreement with Health Discovery Corporation to support its fair value; and

The accuracy of our estimates regarding reimbursement, expenses, future revenues and capital requirements.

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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 amounts)****(unaudited)**

	<b>March 31, 2015</b>	<b>December 31, 2014</b>
<b><u>ASSETS</u></b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 31,248	\$ 33,689
Accounts receivable (net of allowance for doubtful accounts of \$4,079 and \$4,180 respectively)	21,484	20,475
Inventories	2,595	2,616
Deferred income tax asset, net	821	821
Other current assets	1,183	1,141
Total current assets	57,331	58,742
<b>PROPERTY AND EQUIPMENT</b> (net of accumulated depreciation of \$21,406 and \$19,822 respectively)	16,640	15,082
<b>INTANGIBLE ASSETS, NET</b>	4,119	4,212
<b>GOODWILL</b>	2,929	2,929
<b>OTHER ASSETS</b>	139	141
<b>TOTAL ASSETS</b>	<b>\$ 81,158</b>	<b>\$ 81,106</b>
<b><u>LIABILITIES AND STOCKHOLDERS' EQUITY</u></b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 5,465	\$ 6,294
Accrued compensation	3,394	3,897
Accrued expenses and other liabilities	1,237	1,208
Short-term portion of equipment capital lease obligations	3,759	3,224
Total current liabilities	13,855	14,623
<b>LONG-TERM LIABILITIES</b>		
Long-term portion of equipment capital lease obligations	6,327	5,257
Deferred income tax liability, net	821	821



Total long-term liabilities	7,148	6,078
<b>TOTAL LIABILITIES</b>	<b>21,003</b>	<b>20,701</b>
<b>COMMITMENTS AND CONTINGENCIES (SEE NOTE G)</b>		
<b>STOCKHOLDERS EQUITY</b>		
Common stock, \$.001 par value, (100,000,000 shares authorized; 60,335,279 and 60,242,818 shares issued and outstanding, respectively)	60	60
Additional paid-in capital	80,262	79,751
Accumulated deficit	(20,167)	(19,406)
Total stockholders equity	60,155	60,405
<b>TOTAL LIABILITIES AND STOCKHOLDERS EQUITY</b>	<b>\$ 81,158</b>	<b>\$ 81,106</b>

See notes to unaudited consolidated financial statements.

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## NEOGENOMICS, INC.

## CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except share and per share amounts)

(unaudited)

	For the Three Months Ended March 31,	
	2015	2014
<b>NET REVENUE</b>	\$ 23,026	\$ 18,182
<b>COST OF REVENUE</b>	13,482	9,473
<b>GROSS MARGIN</b>	9,544	8,709
<b>OPERATING EXPENSES</b>		
General and administrative	6,522	5,054
Research and development	669	628
Sales and marketing	2,914	2,633
Total operating expenses	10,105	8,315
<b>(LOSS) INCOME FROM OPERATIONS</b>	(561)	394
<b>INTEREST AND OTHER EXPENSE - NET</b>	195	265
<b>(LOSS) INCOME BEFORE INCOME TAXES</b>	(756)	129
<b>INCOME TAXES</b>	5	27
<b>NET (LOSS) INCOME</b>	\$ (761)	\$ 102
<b>NET (LOSS) INCOME PER SHARE - Basic</b>	\$ (0.01)	\$ 0.00
<b>WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING</b>		
<b>Basic</b>	60,277	49,277
<b>NET (LOSS) INCOME PER SHARE Diluted</b>	\$ (0.01)	\$ 0.00
<b>WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING</b>		
<b>Diluted</b>	60,277	53,469

See notes to unaudited consolidated financial statements.

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## NEOGENOMICS, INC.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

	For the Three Months Ended March 31,	
	2015	2014
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net (loss) income	\$ (761)	\$ 102
Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities:		
Bad debt expense	602	884
Amortization of intangibles	93	56
Depreciation and amortization of property and equipment	1,586	1,151
Amortization of debt issue costs		12
Stock-based compensation options and restricted stock	342	89
Stock-based compensation warrants	59	(5)
Changes in assets and liabilities, net:		
Accounts receivable, net of write-offs	(1,610)	(1,492)
Inventories	21	298
Other current assets	(42)	192
Other assets	1	(25)
Accounts payable and other liabilities	(1,078)	(237)
<b>NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES</b>	<b>(787)</b>	<b>1,025</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of property and equipment	(842)	(883)
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(842)</b>	<b>(883)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Advances from revolving credit facility, net		583
Repayments of capital lease obligations	(921)	(772)
Issuance of common stock for the exercise of options, warrants and ESPP shares	109	598
<b>NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES</b>	<b>(812)</b>	<b>409</b>
<b>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(2,441)</b>	<b>551</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>	<b>33,689</b>	<b>4,834</b>

<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	\$	31,248	\$	5,385
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>				
Interest paid	\$	212	\$	254
Income taxes paid	\$	5	\$	159
<b>NON-CASH INVESTING AND FINANCING ACTIVITIES</b>				
Equipment leased under capital lease obligations	\$	2,525	\$	1,693

See notes to unaudited consolidated financial statements.

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**NEOGENOMICS, INC.**

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

**AS OF MARCH 31, 2015**

**NOTE A NATURE OF BUSINESS AND BASIS OF PRESENTATION**

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

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 accompanying interim consolidated financial statements include the accounts of the Parent and its subsidiaries. All intercompany transactions and balances have been eliminated in the accompanying interim consolidated 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 accompanying interim consolidated financial statements. Accordingly, the accompanying interim 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, 2014, filed with the Securities and Exchange Commission on March 3, 2015.

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

**NOTE B RECENTLY ADOPTED AND RECENTLY ISSUED ACCOUNTING GUIDANCE**

**Adopted**

On January 1, 2015, the Company adopted changes issued by the Financial Accounting Standards Board ( FASB ) in Accounting Standards Update ( ASU ) 2014-08, Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity. These changes require a disposal of a component to meet a higher threshold in order to be reported as a discontinued operation in an entity's financial statements. The adoption of these changes had no impact on the accompanying interim consolidated financial statements. This guidance will need to be considered in the event the Company initiates a disposal transaction.

**Issued**

In January 2015, the FASB issued ASU 2015-01, Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items. The changes eliminate the concept of an extraordinary item and, therefore, the

presentation of such items will no longer be required. These changes become effective for the Company on January 1, 2016. Management has determined that the adoption of these changes will not have an impact on the consolidated financial statements.

In April 2015, the FASB issued ASU 2015-03, Simplifying the Presentation of Debt Issue Costs. The changes require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. These changes become effective for the Company on January 1, 2016. Management has determined that the adoption of these changes will not have a material impact on the consolidated financial statements.

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On July 8, 2014, 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 the Company 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.

The following table summarizes the final amounts for the fair values of the assets acquired and liabilities assumed at the acquisition date of July 8, 2014 (in thousands):

	July 8, 2014
Current assets, including cash and cash equivalents	\$ 1,722
Property, plant and equipment	577
Identifiable intangible assets customer relationships	1,930
Long term deposits	28
Goodwill	2,929
<b>Total assets acquired</b>	<b>7,186</b>
Current liabilities	(1,180)
Long-term liabilities	(98)
<b>Net assets acquired</b>	<b>\$ 5,908</b>

The above estimated fair values of assets acquired and liabilities assumed are based on the information that was available as of the acquisition date to estimate the fair value of assets acquired and liabilities assumed. The measurement period adjustments were complete as of December 31, 2014.

Acquired intangible assets of \$1.93 million consist of customer relationships which are being amortized over thirteen years. We recorded approximately \$37,000 of amortization expense for the three months ended March 31, 2015.

The estimated amortization expense related to the acquired intangible assets for each of the five succeeding fiscal years and thereafter as of March 31, 2015 is as follows (in thousands):

<b>Year Ending December 31,</b>	
Remainder of 2015	\$ 111
2016	148
2017	148
2018	148
2019	148
2020	148
Thereafter	971



Total

\$ 1,822

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. The total amount of goodwill which is expected to be deductible for tax purposes is approximately \$3.7 million, which will be amortized on our tax returns over 15 years.

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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 March 31, 2014
Revenue	\$ 20,529
Net (loss)	(566)
(Loss) per share	
Basic	\$ (0.01)
Diluted	\$ (0.01)

The unaudited pro forma consolidated results 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:

a net reduction in amortization expense during the three months ended March 31, 2014 due to decreased intangible assets recorded related to the acquisition,

a net reduction in interest expense during the three months ended March 31, 2014 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 months ended March 31, 2014 due to decreased fixed asset values recorded related to the acquisition,

a net reduction in general and administrative expenses for the three months ended March 31, 2014 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.

**NOTE D INTANGIBLE ASSETS**

Intangible assets as of March 31, 2015 and December 31, 2014 consisted of the following (in thousands):

	Amortization Period	March 31, 2015 Accumulated		
		COST	Amortization	Net
Customer Relationships	156 months	\$ 1,930	\$ 108	\$ 1,822
Support Vector Machine (SVM) technology	108 months	500	181	319
Laboratory developed test (LDT) technology	164 months	1,482	324	1,158
Flow Cytometry and Cytogenetics technology	202 months	1,000	180	820
<b>Total</b>		<b>\$ 4,912</b>	<b>\$ 793</b>	<b>\$ 4,119</b>

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