NEOGENOMICS INC
Form 10-Q
November 06, 2018

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, 2018
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	74-2897368
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
12701 Commonwealth Drive, Suite 9, Fort Myers, Florida	33913
(Address of principal executive offices)	(Zip Code)

(239) 768-0600
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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	Smaller Reporting Company
(Do not check if a 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 2, 2018, the registrant had 93,016,722 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 Clarient, Inc., a Delaware corporation and its wholly owned subsidiary, Clarient Diagnostic Services, Inc. (together "Clarient") (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 expr 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 13, 2018.

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

- Our ability to integrate future acquisitions and costs related to such acquisitions, including our proposed acquisition of the parent company of Genoptix, Inc.
- 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;
- 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; and
- Our ability to manage expenses and risks associated with international operations, including anti-corruption and trade sanction laws and other regulations, and economic, political, legal and other operational risks associated with foreign jurisdictions.

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.

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, 2018	December 31, 2017 (as adjusted)
Current assets		
Cash and cash equivalents	$118,440	$12,821
Accounts receivable	62,694	60,427
Inventories	6,829	7,474
Other current assets	6,307	5,153
Total current assets	194,270	85,875
Property and equipment (net of accumulated depreciation of $49,492 and $40,530, respectively)	41,004	36,504
Intangible assets, net	69,909	74,165
Goodwill	147,019	147,019
Other assets	2,937	891
Total assets	$455,139	$344,454
LIABILITIES, REDEEMABLE CONVERTIBLE PREFERRED STOCK AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	9,200	10,450
Accrued compensation	15,187	9,482
Accrued expenses and other liabilities	7,517	6,144
Short-term portion of capital leases and car loans	6,675	5,239
Short-term portion of loans	7,217	3,750
Pharma contract liability	1,259	1,406
Total current liabilities	$47,055	$36,471
Long-term liabilities		
Long-term portion of capital leases and car loans	6,663	5,303
Long-term portion of loans, net	89,764	66,616
Revolving credit facility, net	—	24,516
Long-term pharma contract liability	1,199	283
Deferred income tax liability, net	6,899	6,688
Total long-term liabilities	104,525	103,406
Total liabilities	151,580	139,877
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; 0 and 6,864,000 shares issued and outstanding)	—	32,615
Stockholders' equity		
Common stock, $0.001 par value, (250,000,000 shares authorized; 92,980,783 and 80,462,574 shares issued and outstanding, respectively)	93	80
Additional paid-in capital	354,487	230,030
Accumulated other comprehensive income	536	274

Accumulated deficit	(51,557)	(58,422)
Total stockholders' equity	303,559	171,962
Total liabilities, redeemable convertible preferred stock and stockholders' equity	$455,139	$344,454

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,	
	2018	2017 (as adjusted)	2018	2017 (as adjusted)
NET REVENUE				
Clinical Services	$59,449	$51,187	$175,960	$159,642
Pharma Services	9,647	7,950	24,306	19,188
Total Revenue	69,096	59,137	200,266	178,830
COST OF REVENUE	36,775	34,242	110,111	103,634
GROSS PROFIT	32,321	24,895	90,155	75,196
Operating expenses:				
General and administrative	21,055	18,268	59,106	53,717
Research and development	446	1,270	2,475	3,080
Sales and marketing	6,900	6,363	21,355	18,142
Loss on sale of Path Logic	—	1,058	—	1,058
Total operating expenses	28,401	26,959	82,936	75,997
INCOME (LOSS) FROM OPERATIONS	3,920	(2,064)	7,219	(801)
Interest expense, net	1,873	1,398	4,766	4,173
Other (income) expense	(30)	—	31	—
Income (loss) before taxes	2,077	(3,462)	2,422	(4,974)
Income tax expense (benefit)	54	802	135	(30)
NET INCOME (LOSS)	2,023	(4,264)	2,287	(4,944)
Deemed dividends on preferred stock	—	912	1,950	2,734
Amortization of preferred stock beneficial conversion feature	—	1,739	3,677	5,122
Gain on redemption of preferred stock	—	—	(9,075)	—
NET INCOME (LOSS) ATTRIBUTABLE TO COMMON STOCKHOLDERS	$2,023	$(6,915)	$5,735	$(12,800)
INCOME (LOSS) PER SHARE ATTRIBUTABLE TO COMMON STOCKHOLDERS				
Basic	$0.02	$(0.09)	$0.07	$(0.16)
Diluted	$0.02	$(0.09)	$0.06	$(0.16)
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:				
Basic	87,253	79,617	87,381	79,208
Diluted	90,899	79,617	89,925	79,208

See notes to unaudited consolidated financial statements.

NEOGENOMICS, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(in thousands)
(unaudited)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2018	2017 (as adjusted)	2018	2017 (as adjusted)
NET INCOME (LOSS)	$2,023	$(4,264)	$2,287	$(4,944)
OTHER COMPREHENSIVE INCOME, NET OF TAX:				
Foreign currency translation adjustments	(13)	—	(36)	—
Gain on effective cash flow hedge	292	—	298	—
Total other comprehensive gain, net of tax	279	—	262	—
COMPREHENSIVE INCOME (LOSS)	$2,302	$(4,264)	$2,549	$(4,944)

See notes to unaudited consolidated financial statements.

NEOGENOMICS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(unaudited)

	For the Nine Months Ended September 30,	
CASH FLOWS FROM OPERATING ACTIVITIES	2018	2017 (as adjusted)
Net income (loss)	$2,287	$(4,944)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation	11,477	11,739
Amortization of intangibles	4,255	5,201
Amortization of debt issue costs	392	330
Loss on disposal of assets	278	—
Loss on sale of Path Logic	—	1,058
Non-cash stock based compensation	5,148	5,812
Changes in assets and liabilities, net:		
(Increase) in accounts receivable, net of write-offs	(2,267)	(7,890)
(Increase) decrease in inventories	644	(37)
(Increase) in prepaid expenses	(559)	(1,281)
(Increase) in other current assets	(1,749)	(238)
Increase in accounts payable, accrued and other liabilities	9,427	2,528
Net cash provided by operating activities	29,333	12,278
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(11,091)	(10,167)
Net cash used in investing activities	(11,091)	(10,167)
CASH FLOWS FROM FINANCING ACTIVITIES		
Advances on revolving credit facility	10,000	2,496
Repayment of revolving credit facility	(35,400)	—
Redemption of preferred stock	(50,096)	—
Repayment of capital lease obligations, loans	(4,774)	(4,126)
Repayment of term loan	(3,187)	(2,816)
Proceeds from term loan	30,000	—
Payments of debt issue costs	(576)	—
Issuance of common stock, net	141,445	2,021
Net cash provided by (used in) financing activities	87,412	(2,425)
Effects of foreign exchange rate changes on cash and cash equivalents	(35)	—
Net change in cash and cash equivalents	105,619	(314)
Cash and cash equivalents, beginning of period	12,821	12,525
Cash and cash equivalents, end of period	$118,440	$12,211
Supplemental disclosure of cash flow information:		
Interest paid	$4,722	$3,879
Income taxes paid (refunded), net	$(76)	$272
Supplemental disclosure of non-cash investing and financing information:		
Purchase of customer list through issuance of restricted stock	$—	$4,466

Equipment acquired under capital lease/loan obligations	7,569	3,240

See notes to unaudited consolidated financial statements.

NEOGENOMICS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Unaudited

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 ("NeoGenomics Laboratories"), Clarient Inc. and its wholly-owned subsidiary Clarient Diagnostic Services, Inc. ("Clarient"), Genoptix Merger Sub, Inc., NeoGenomics Bioinformatics, Inc., NeoGenomics Europe, SA, and NeoGenomics Singapore, Pte. Ltd. (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 as well as providing clinical trial services to pharmaceutical firms.
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 consolidated financial statements include the accounts of the Parent and its subsidiaries. All intercompany transactions and balances have been eliminated in the accompanying 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, 2017, filed with the SEC on March 13, 2018. The year-end consolidated balance sheet data was derived from the audited consolidated financial statements as of December 31, 2017, but does not include all the disclosures required by accounting principles.
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.

The Company reports its activities in two operating segments; the Clinical Services Segment and the Pharma Services Segment. These reportable segments deliver testing services to hospitals, pathologists, oncologists, clinicians, pharmaceutical firms and researchers and represent 100% of the Company's consolidated assets, net revenues and net income (loss) for each period presented. For further financial information about these segments, see Note K.

Reclassifications

The Company adopted ASC 606 on a full retrospective basis, which required the Company to restate its results for certain previously reported periods as if ASC 606 had been effective for those periods. For further details regarding the impact of this new accounting standard, see Note B.
Note B – Recently Adopted and Issued Accounting Guidance

Adopted
In June 2018, the FASB issued ASU 2018-07, Compensation - Stock Compensation. This standard expands the scope of current stock compensation recognition standards to include share-based payment transactions for acquiring goods and services from nonemployees. ASU 2018-07 is effective for fiscal years beginning after December 15, 2018, including interim periods within that fiscal year, with early adoption permitted. The Company early adopted this ASU on April 1, 2018. The adoption of this standard substantially aligned the accounting for share based payments to employees and nonemployees. Under the new standard, the Company recorded a cumulative adjustment of $1.1

million to increase retained earnings and decrease APIC.

In August 2017, the FASB issued ASU 2017-12, Derivatives and Hedging. This standard refines hedge accounting to better align an entity's risk management activities and financial reporting for hedging relationships through changes to both the designation and measurement guidance for qualifying hedging relationships and the presentation of hedge results. The amended guidance also expands items eligible for hedge accounting and simplifies the hedge effectiveness testing. ASU 2017-12 is effective for annual periods beginning after December 15, 2018 and interim periods within those annual periods. Early adoption is permitted. The Company early adopted this standard on April 1, 2018 and applied this guidance to the cash flow hedge entered into in June 2018. See Note F. The adoption of ASU 2017-12 did not have a material effect on its consolidated financial statements.

NEOGENOMICS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Unaudited

In May 2014, the FASB issued ASU 2014-09, which amends FASB Accounting Standards Codification by creating Topic 606, Revenues from Contracts with Customers. This standard update calls for a number of revisions in the revenue recognition rules. The Company adopted this ASU on January 1, 2018 using a full retrospective method of adoption. Under this method, the Company has restated its results for each prior reporting period presented as if ASC 606 had been effective for those periods.

The adoption of this standard required us to implement new revenue policies, procedures and internal controls related to revenue recognition. In addition, the adoption resulted in enhanced financial statement disclosures surrounding the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. For further details, see Note C.

The new standard impacts each of our two reportable segments differently due to the transactional nature of the Clinical Services Division versus the generally long-term nature of our Pharma Services Division contracts. The specific effect on our reportable segments is explained below:

Clinical Services Revenue

Under the new standard, substantially all of our bad debt expense, which has historically been presented as part of general and administrative expense, is considered an implicit price concession and is reported as a reduction in revenue. As a result of ASC 606, we reported a material cumulative reduction in clinical revenue from previously reported periods and a similar reduction in general and administrative expenses.

Pharma Services Revenue

The adoption of ASC 606 also resulted in changes to the timing of revenue recognition related to Pharma Services contracts as certain individual deliverables such as study setup fees, for which revenue was previously recognized in the period when the deliverables were completed and invoiced, will be recognized over the remaining performance period under the new standard. Additionally, certain costs to obtain contracts, primarily for sales commissions, are capitalized when incurred and are amortized over the term of the contract. Under ASC 606, the Company is required to make estimates of the total transaction price per contract, including estimates of variable consideration and the number of performance obligations, and recognize the estimated amount as revenue as it transfers control of the product or performance obligations to its customers. The estimation of total transaction price, number of performance obligations, variable consideration and the application of the related constraint, was not required under previous GAAP and requires the use of significant management judgment and estimates. The Company elected certain practical expedients as allowed under the standard including the following: contracts that began and ended within the same annual reporting period were not restated; contracts with variable consideration were estimated using the transaction price at the date the contract was completed; contract modifications that occurred prior to earliest reporting period have not been retrospectively restated but have rather been reflected as an aggregate adjustment in the earliest reporting period. The cumulative effect of this standard did not result in a material change to our Pharma Services revenue.

ASC 606 Adoption Impact to Previously Reported Results

We adjusted our condensed consolidated financial statements from amounts previously reported due to the adoption of ASC 606.

Select condensed consolidated balance sheet line items, which reflect the adoption of ASC 606, are as follows (in thousands):

	December 31, 2017		
	As Reported	Impact of Adoption	As Adjusted
Other current assets	$4,241	$ 912	$5,153
Other assets	689	202	891
Total Assets	$343,340	$ 1,114	$344,454

Pharma contract liability	$—	$ 1,406	$1,406
Long-term pharma contract liability	—	283	283
Deferred income tax liability, net	6,307	381	6,688
Stockholders' Equity	172,918	(956)	171,962
Total Liabilities and Stockholders' Equity	$343,340	$ 1,114	$344,454

NEOGENOMICS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Unaudited

Select unaudited condensed consolidated statement of operations line items, which reflect the adoption of ASC 606, are as follows (in thousands):

	For the Three Months Ended September 30, 2017			For the Nine Months Ended September 30, 2017		
	As Reported	Impact of Adoption	As Adjusted	As Reported	Impact of Adoption	As Adjusted
Net Revenue						
Clinical Services	$56,186	$(4,999)	$51,187	$172,667	$(13,025)	$159,642
Pharma Services	6,866	1,084	7,950	18,151	1,037	19,188
Total Revenue	$63,052	$(3,915)	$59,137	$190,818	$(11,988)	$178,830
Gross Profit	$28,810	$(3,915)	$24,895	$87,184	$(11,988)	$75,196
Total operating expenses	$32,172	$(5,213)	$26,959	$89,347	$(13,350)	$75,997
Income from Operations	(3,362)	1,298	(2,064)	(2,163)	1,362	(801)
Interest expense	1,398	—	1,398	4,173	—	4,173
Income tax (benefit) expense	340	462	802	(539)	509	(30)
Net Income (Loss)	$(5,100)	$836	$(4,264)	$(5,797)	$853	(4,944)

In May 2017, the FASB issued ASU 2017-09, Compensation – Stock Compensation. This standard provides guidance related to the scope of stock option modification accounting, to reduce diversity in practice and reduce cost and complexity regarding existing guidance. This update is effective for annual periods beginning after December 15, 2017. The Company adopted this standard on January 1, 2018. The adoption of this standard did not have an impact on the consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-04, Intangibles – Goodwill and Other: Simplifying the Test for Goodwill Impairment. This standard eliminates Step 2 of the goodwill impairment test. Instead, an entity should perform its annual or interim goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. This update is effective for annual and interim periods beginning after December 15, 2019. The Company early adopted this standard on January 1, 2018. The adoption of this standard did not have an impact on the consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows – Classification of Certain Cash Receipts and Cash Payments. This standard clarifies how specific cash receipts and cash payments are classified and presented in the statement of cash flows. This update is effective for fiscal years and interim periods within those fiscal years beginning after December 15, 2017. The Company adopted this standard on January 1, 2018. The adoption of this standard did not have an impact on the consolidated financial statements.

Issued

In February 2016, the FASB issued ASU 2016-02, Leases. This standard was issued to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities, including for operating leases, on the balance sheet and disclosing key information about leasing arrangements. This update is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. We expect to adopt this standard using a modified transition approach, effective January 1, 2019, under which we will recognize a cumulative-effect adjustment to retained earnings on the date of adoption.

The Company is currently implementing an information system and is changing business processes in order to accumulate the appropriate data and calculate and record right-of-use assets, lease liabilities and the related expense. We are continuing to evaluate the quantitative impact that adoption of this standard will have on our consolidated balance sheet as well as the impact on related disclosures, processes and controls. We do not currently expect that the adoption will have a material impact on our results of operations; however, we expect the adoption to have a material impact on the balance sheet with the recording of the right-of-use asset and corresponding lease liability.

NEOGENOMICS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Unaudited

Note C – Revenue Recognition and Contractual Adjustments

The Company has two operating segments for which it recognizes revenue; Clinical Services and Pharma Services. Our Clinical Services segment provides various clinical testing services to community-based pathology practices, hospital pathology labs and academic centers with reimbursement from various payers including client direct billing, commercial insurance, Medicare and other government, and patients. Our Pharma Services segment supports pharmaceutical firms in their drug development programs by providing testing services for clinical trials and research.

Clinical Services Revenue

The Company's specialized diagnostic services are performed based on a written test requisition form or electronic equivalent. The performance obligation is satisfied 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. Revenue is recorded for all payers based on the amount expected to be collected, which considers implicit price concessions. Implicit price concessions represent differences between amounts billed and the estimated consideration the Company expects to receive based on negotiated discounts, historical collection experience and other anticipated adjustments, including anticipated payer denials. Collection of consideration the Company expects to receive typically occurs within 30 to 60 days of billing for commercial insurance, Medicare and other governmental and self-pay payers and within 60 to 90 days of billing for client payers.

Pharma Services Revenue

The Company's Pharma Services segment generally enters into contracts with pharmaceutical and biotech customers as well as other Contract Research Organizations ("CROs") to provide research and clinical trial services ranging in duration from one month to several years. The Company records revenue on a unit-of-service basis based on number of units completed and the total expected contract value. The total expected contract value is estimated based on historical experience of total contracted units compared to realized units as well as known factors on a specific contract-by-contract basis. Certain contracts include upfront fees, final settlement amounts or billing milestones that may not align with the completion of performance obligations. The value of these upfront fees or final settlement amounts is usually recognized over time based on the number of units completed, which aligns with the progress of the Company towards fulfilling its obligations under the contract. The Company also enters into other contracts, such as validation studies, for which the sole deliverable is a final report that is sent to sponsors at the completion of contracted activities. For these contracts, revenue is recognized at a point in time upon delivery of the final report to the sponsor. Any contracts that contain multiple performance obligations and include both units-of-service and point in time deliverables are accounted for as separate performance obligations and revenue is recognized as previously disclosed. The Company negotiates billing schedules and payment terms on a contract-by-contract basis. While the contract terms generally provide for payments based on a unit-of-service arrangement, the billing schedules, payment terms and related cash payments may not align with the performance of services and, as such, may not correspond to revenue recognized in any given period.

Amounts collected in advance of services being provided are deferred as contract liabilities on the balance sheet. The associated revenue is recognized and the contract liability is reduced as the contracted services are subsequently performed. Contract assets are established for revenue that has been recognized but not yet billed. These contract assets are reduced once the customer is invoiced and a corresponding account receivable is recorded. Additionally, certain costs to obtain contracts, primarily for sales commissions, are capitalized when incurred and are amortized over the term of the contract. Amounts capitalized for contracts with an initial contract term of twelve months or less are classified as current assets and all others are classified as non-current assets.

Most contracts are terminable by the customer, either immediately or according to advance notice terms specified within the contracts. All contracts require payment of fees to the Company for services rendered through the date of termination and may require payment for subsequent services necessary to conclude the study or close out the contract.

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NEOGENOMICS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Unaudited

The following table summarizes the values of contract assets, capitalized commissions and contract liabilities as of September 30, 2018 and December 31, 2017 (in thousands):

	September 30, 2018	December 31, 2017
Current pharma contract asset	$ 219	$ 541
Long-term pharma contract asset	408	31
Total pharma contract asset	$ 627	$ 572
Current pharma capitalized commissions	$ 308	$ 371
Long-term pharma capitalized commissions	637	171
Total pharma capitalized commissions	$ 945	$ 542
Current pharma contract liability	$ 1,259	$ 1,406
Long-term pharma contract liability	1,199	283
Total pharma contract liability	$ 2,458	$ 1,689

There were no significant changes in the contract assets for the period ended September 30, 2018 as compared to the balances at December 31, 2017. Pharma contract liabilities increased $0.8 million, or 46%, from December 31, 2017 while capitalized commissions also increased by $0.4 million, or 74%. These increases are due to higher upfront fees driven by increases in the volume of Pharma contracts in process. Revenue recognized for the three and nine months ended September 30, 2018 related to pharma contract liability balances outstanding at the beginning of the period was $0.2 million and $1.5 million, respectively. Amortization of capitalized commissions for the three and nine months ended September 30, 2018 were $0.2 million and $0.6 million, respectively.

The amount of existing performance obligations under long-term contracts, as defined by ASC 606, which were unsatisfied as of September 30, 2018, was $57.3 million. We expect to recognize approximately 40% of these remaining performance obligations as revenue in the next 12 months and the balance thereafter. The Company applied the practical expedient and does not disclose information about remaining performance obligations that have original expected durations of one year or less. The unsatisfied existing performance obligations under long-term contracts as defined by ASC 606 differs from backlog in that it does not include wholly unperformed contracts where the promised consideration is variable and/or the application of other practical expedients.

Disaggregation of Revenue

The Company considered various factors for both its Clinical Services and Pharma Services segments in determining appropriate levels of homogeneous data for its disaggregation of revenue, including the nature, amount, timing and uncertainty of revenue and cash flows. For Clinical Services, the categories identified align with our type of customer due to similarities of billing method, level of reimbursement and timing of cash receipts at this level. Unbilled amounts are accrued and allocated to payor categories based on historical experience. In future periods, actual billings by payor category may differ from accrued amounts. Pharma Services revenue was not further disaggregated as substantially all of our revenue relates to contracts with large pharmaceutical and biotech customers as well as other CROs for which the nature, timing and uncertainty of revenue and cash flows is similar and primarily driven by individual contract terms.

The following table details the disaggregation of revenue for both the Clinical and Pharma Services Segments (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Clinical Services:				

Client direct billing	$39,779	$38,111	$120,925	$108,538
Commercial Insurance	10,253	6,407	28,726	27,967
Medicare and Medicaid	8,603	6,588	25,333	22,809
Self-Pay	814	81	976	328
Total Clinical Services	$59,449	$51,187	$175,960	$159,642
Pharma Services:	9,647	7,950	24,306	19,188
Total Revenue	$69,096	$59,137	$200,266	$178,830

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Note D – Goodwill and Intangible Assets

Goodwill as of September 30, 2018 and December 31, 2017 was $147.0 million. There were no changes in the carrying amount of goodwill during the three and nine month periods ending September 30, 2018.

Intangible assets as of September 30, 2018 and December 31, 2017 consisted of the following (in thousands):

		September 30, 2018		
	Amortization Period	Cost	Accumulated Amortization	Net
Customer Relationships	156 - 180 months	$85,068	$ 15,171	$69,897
Non-Compete Agreement	36 months	26	14	12
Total		$85,094	$ 15,185	$69,909

		December 31, 2017		
	Amortization Period	Cost	Accumulated Amortization	Net
Customer Relationships	156 - 180 months	$85,068	$ 10,925	$74,143
Non-Compete Agreement	36 months	26	4	22
Trade Name	24 months	3,000	3,000	—
Total		$88,094	$ 13,929	$74,165

We recorded approximately $1.4 and $1.7 million in straight-line amortization expense of intangible assets for the three month periods ended September 30, 2018 and 2017, respectively. We recorded approximately $4.3 and $5.2 million in straight-line amortization expense of intangible assets for the nine month periods ended September 30, 2018 and 2017, respectively. The Company records amortization expense as a general and administrative expense.
The estimated amortization expense related to amortizable intangible assets for each of the five succeeding fiscal years and thereafter as of September 30, 2018 is as follows (in thousands):

Remainder of 2018	$1,421
2019	5,680
2020	5,671
2021	5,671
2022	5,671
Thereafter	45,795
Total	$69,909

Note E – Debt

The following table summarizes the long term debt at September 30, 2018 and December 31, 2017 (in thousands):

	September 30, 2018	December 31, 2017
Term Loan Facility	$ 98,061	$ 71,250
Revolving Credit Facility	—	25,400
Capital leases and car loans	13,338	10,542
Total Debt	$ 111,399	$ 107,192
Less: Debt issuance costs	(1,080)	(1,768)
Less: Current portion of long-term debt	(13,892)	(8,989)

Total Long-Term Debt, net	$ 96,427	$ 96,435

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The carrying value of the Company's long-term capital lease obligations and term debt approximates its fair value based on the current market conditions for similar instruments.

Term Loan

On December 22, 2016, the Company entered into a Credit Agreement with Regions Bank as administrative agent and collateral agent. The Credit Agreement provided for a $75 million term loan facility (the "Term Loan Facility"). On June 21, 2018, the Company entered into an amendment to the Credit Agreement (the "Amendment") which provided for an additional term loan in the amount of $30 million, for which revised terms are included below.

On September 30, 2018 and December 31, 2017, the Company had current outstanding borrowings under the Term Loan, as amended, of approximately $7.2 million and $3.8 million and long-term outstanding borrowings of approximately $89.8 million and $66.6 million, net of unamortized debt issuance costs of $1.1 million and $0.9 million, respectively. The debt issuance costs were recorded as a reduction in the carrying amount of the related liability and are being amortized over the life of the loan.

The Term Loan Facility bears interest at a rate per annum equal to an applicable margin plus, at NeoGenomics Laboratories' option, either (1) the Adjusted LIBOR rate for the relevant interest period, (2) an alternate base rate determined by reference to the greatest of (a) the prime lending rate of Regions, (b) the federal funds rate for the relevant interest period plus 0.5% per annum and (c) the one month LIBOR rate plus 1% per annum, or (3) a combination of (1) and (2). The applicable margin will range from 2.25% to 4.00% for LIBOR loans and 1.25% to 3.00% for base rate loans, in each case based on NeoGenomics Laboratories' consolidated leverage ratio (as defined in the Credit Agreement and revised in the Amendment). Interest on borrowings is payable on the last day of each month, in the case of each base rate loan, and on the last day of each interest period (but no less frequently than every three months), in the case of Adjusted LIBOR loans. The Company entered into interest rate swap agreements to hedge against changes in the variable rate for a portion of both the Term Loan Facility and the Amendment. See Note F-Derivative Instruments and Hedging Activities for more information on these instruments.

The Term Loan Facility and amounts borrowed under the Revolving Credit Facility are secured on a first priority basis by a security interest in substantially all of the tangible and intangible assets of NeoGenomics Laboratories and the Guarantors. The Term Loan Facility contains various affirmative and negative covenants including ability to incur liens and encumbrances; make certain restricted payments, including paying dividends on its equity securities or payments to redeem, repurchase or retire its equity securities; enter into certain restrictive agreements; make investments, loans and acquisitions; merge or consolidate with any other person; dispose of assets; enter into sale and leaseback transactions; engage in transactions with its affiliates, and materially alter the business it conducts. In addition, the Company must meet certain maximum leverage ratios and fixed charge coverage ratios as of the end of each fiscal quarter commencing with the quarter ended March 31, 2017. The Company was in compliance with all financial covenants as of September 30, 2018.

The Term Loan Facility and Amendment have a maturity date of December 22, 2021. The Credit Agreement requires NeoGenomics Laboratories to mandatorily prepay the Term Loan Facility and amounts borrowed under the Revolving Credit Facility with (i) 100% of net cash proceeds from certain sales and dispositions, subject to certain reinvestment rights, (ii) 100% of net cash proceeds from certain issuances or incurrences of additional debt, (iii) beginning with the fiscal year ending December 31, 2018, 75% of consolidated excess cash flow (as defined) if NeoGenomics Laboratories' consolidated leverage ratio is greater than or equal to 3.25:1.0 or 50% of consolidated excess cash flow (as defined) if NeoGenomics Laboratories' consolidated leverage ratio is less than or equal to 3.25:1.0 but greater than or equal to 2.75:1.0 and (iv) 100% of net cash proceeds from issuances of permitted equity securities by NeoGenomics Laboratories made in order to cure a failure to comply with the financial covenants. NeoGenomics Laboratories is permitted to voluntarily prepay the Term Loan Facility and amounts borrowed under the Revolving

Credit Facility at any time without penalty.

Revolving Credit Facility

On December 22, 2016, the Company entered into a Credit Agreement with Regions Bank as administrative agent and collateral agent. The Credit Agreement provided for a $75 million revolving credit facility (the "Revolving Facility"). The revolving credit facility was repaid during the third quarter of 2018, resulting in no outstanding borrowings or unamortized debt issuance costs at September 30, 2018. On December 31, 2017, the Company had outstanding borrowings of approximately $24.5 million, net of unamortized debt issuance costs of $0.9 million.

The Revolving Credit Facility includes a $10 million swingline sublimit, with swingline loans bearing interest at the alternate base rate plus the applicable margin. Any principal outstanding under the Revolving Credit Facility is due and payable on December 22, 2021 or such earlier date as the obligations under the Credit Agreement become due and payable pursuant to the terms of the Credit

NEOGENOMICS, INC.
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Agreement. The Revolving Facility bears interest at a rate per annum equal to an applicable margin plus, at NeoGenomics Laboratories' option, either (1)the Adjusted LIBOR rate for the relevant interest period, (2) an alternate base rate determined by reference to the greatest of (a) the prime lending rate of Regions, (b) the federal funds rate for the relevant interest period plus 0.5% per annum and (c) the one month LIBOR rate plus 1% per annum, or (3) a combination of (1) and (2). The applicable margin will range from 2.25% to 4.00% for Adjusted LIBOR loans and 1.25% to 3.00% for base rate loans, in each case based on NeoGenomics Laboratories' consolidated leverage ratio. Interest on the outstanding principal of the Term Loan Facility will be payable on the last day of each month, in the case of each base rate loan, and on the last day of each interest period (but no less frequently than every three months), in the case of LIBOR loans.

The Credit Agreement, as amended requires NeoGenomics Laboratories to mandatorily prepay the Term Loan Facility and amounts borrowed under the Revolving Credit Facility with (i) 100% of net cash proceeds from certain sales and dispositions, subject to certain reinvestment rights, (ii) 100% of net cash proceeds from certain issuances or incurrences of additional debt, (iii) beginning with the fiscal year ending December 31, 2018, 75% of consolidated excess cash flow (as defined) if NeoGenomics Laboratories' consolidated leverage ratio is greater than or equal to 3.25:1.0 or 50% of consolidated excess cash flow (as defined) if NeoGenomics Laboratories' consolidated leverage ratio is less than or equal to 3.25:1.0 but greater than or equal to 2.75:1.0 and (iv) 100% of net cash proceeds from issuances of permitted equity securities by NeoGenomics Laboratories made in order to cure a failure to comply with the financial covenants. NeoGenomics Laboratories is permitted to voluntarily prepay the Term Loan Facility and amounts borrowed under the Revolving Credit Facility at any time without penalty, subject to customary "breakage" costs with respect to prepayments of Adjusted LIBOR rate loans made on a day other than the last day of any applicable interest period.

Capital Leases

The Company has entered into capital leases to purchase laboratory equipment, office equipment and leasehold improvements. These leases expire at various dates through 2021 and the weighted average interest rate under such leases was approximately 4.76% at September 30, 2018. Most of these leases contain bargain purchase options that allow us to purchase the leased property for a minimal amount upon the expiration of the lease term. The remaining leases have purchase options at fair market value.

Property and equipment acquired under capital lease agreements are pledged as collateral to secure the performance of the future minimum lease payments.

Maturities of Long-Term Debt

Maturities of long-term debt at September 30, 2018 are summarized as follows (in thousands):

	Term Loan and Revolving Credit Facility	Capital Lease Obligations and Car loans	Total Long-Term Debt
Remainder of 2018	$ 1,313	$ 1,922	$ 3,235
2019	7,873	6,727	14,600
2020	7,873	4,241	12,114
2021	81,002	1,202	82,204
	98,061	14,092	112,153
Less: Interest on capital leases	—	(754)	(754)
	98,061	13,338	111,399

Less: Current portion of long-term debt	(7,217)	(6,675)	(13,892)
Less: Debt issuance costs	(1,080)	—	(1,080)
Long-term debt, net	$ 89,764	$ 6,663	$ 96,427

Note F – Derivative Instruments and Hedging Activities

In December of 2016 and June of 2018, the Company entered into interest rate swap agreements to reduce our exposure to interest rate fluctuations on our variable rate debt obligations. These derivative financial instruments are accounted for at fair value as cash flow hedges, which effectively modifies our exposure to interest rate risk by converting a portion of our floating rate debt to a fixed rate obligation, thus reducing the impact of interest rate changes on future interest expense. We account for derivatives in accordance with ASC Topic 815.

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Under these agreements, we receive a variable rate of interest based on LIBOR and we pay a fixed rate of interest. The following table summarizes the interest rate swap agreements.

	December 2016 Hedge	June 2018 Hedge
Notional Amount	$50 million	$20 million (1)
Effective Date	December 30, 2016	June 29, 2018
Index	One month LIBOR	One month LIBOR
Maturity	December 31, 2019	December 31, 2021
Rate	1.59 %	2.98 %

(1) The notional amount increases to $70 million upon maturity of December 2016 hedge on December 31, 2019.

The fair value of the interest rate swaps will be included in other long term assets or liabilities, when applicable. As of September 30, 2018 and December 31, 2017, the fair value of the derivative financial instruments were $0.6 million and $0.4 million, which was included in the balance sheet as other assets and reflected in AOCI. The instrument will be evaluated on a monthly basis and resulting increases or decreases will be recorded as a component of AOCI and will be reclassified to interest expense in the period during which the hedged transaction affects earnings. Cash flows from the interest rate swap are included in operating activities on the consolidated statement of cash flows. The Company performed an effectiveness assessment and determined that the interest rate swaps are highly effective and, thus, there is no impact to the Company's consolidated statements of operations. As of September 30, 2018, the Company estimates that it will reclassify gains or losses on derivative instruments of $0.2 million from AOCI to earnings during the next twelve months as the anticipated cash flows occur.

Note G – Class A Redeemable Convertible Preferred Stock

On December 30, 2015, the Company issued 14,666,667 shares of its Series A Redeemable Convertible Preferred Stock ("Series A Preferred Stock") as part of the consideration for the acquisition of Clarient. The Series A Preferred Stock had a face value of $7.50 per share for a total liquidation value of $110 million. During the first year, the Series A Preferred Stock had a liquidation value of $100 million if the shares were redeemed prior to December 29, 2016. On December 22, 2016, the Company redeemed 8,066,667 shares of the Series A Preferred Stock for $55.0 million in cash. The redemption amount per share equaled $6.82 ($7.50 minus the liquidation discount of 9.09%). In December 2017, the Company issued 264,000 additional shares of Preferred Stock as a Paid-in-Kind (“PIK”) dividend, resulting in a balance of 6,864,000 shares of Series A Preferred Stock outstanding at December 31, 2017.

On June 25, 2018, the Company redeemed the remaining outstanding Preferred Stock for an aggregate redemption amount of $50.1 million, prior to consideration of any transaction related expenses. The shares were redeemed at $7.30 per share, representing the applicable 4.55% redemption discount on the original liquidation preference plus an additional $0.14 per share in respect of accrued and unpaid dividends for 2018. Following the redemption, no shares of Preferred Stock remain outstanding.

The gain or loss was calculated as the carrying value of the shares of Preferred Stock before the redemption of $37.8 million plus the amount of the beneficial conversion feature originally recorded with the redeemed shares of $21.3 million, as compared to the total consideration being paid, in this case the $50.1 million.

Issue Discount

The Company recorded the Series A Preferred Stock at a fair value of approximately $73.2 million, or $4.99 per share, on the date of issuance. The difference between the fair value of $73.2 million and the liquidation value of $110 million represents a discount of $36.8 million from the initial face value representing the impact the rights and features of the instrument had on the value to the Company. After the partial redemption, the Series A Preferred stock had a fair value of approximately $32.9 million, or $4.99 per share. The difference between the fair value of $32.9 million and the liquidation value of $49.5 million represented a discount of approximately $16.6 million.

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Beneficial Conversion Features

The fair value of the common stock into which the Series A Preferred Stock was convertible exceeded the allocated purchase price fair value of the Series A Preferred Stock at the date of issuance and after the partial redemption in December of 2016 by approximately $44.7 and $20.1 million, respectively, resulting in a beneficial conversion feature. The Company recognized the beneficial conversion feature as non-cash, deemed dividends to the holder of Series A Preferred Stock over the first three years the Series A Preferred Stock was outstanding, as the date the stock first becomes convertible was three years from the issue date. In addition to the beneficial conversion feature ("BCF") recorded at the original issue date, we recorded additional BCF discounts for payment-in-kind shares accrued for the quarter ended March 31, 2018 as dividends.

Automatic Conversion

Absent an early redemption, each share of Series A Preferred Stock issued and outstanding as of the tenth anniversary of the original issue date would have automatically converted into fully paid and non-assessable shares of common stock.

Classification

Prior to redemption, the Company classified the Preferred Stock as temporary equity on the consolidated balance sheets due to certain change in control events that are outside the Company's control, including deemed liquidation events described in the Series A Certificate of Designation.

Note H – Equity

We recorded approximately $1.1 and $2.8 million in stock based compensation expense for the three month periods ended September 30, 2018 and 2017, respectively. We recorded approximately $5.0 and $5.8 million in stock based compensation expense for the nine month periods ended September 30, 2018 and 2017, respectively.

A summary of the stock option activity under the Company's plans for the nine months ended September 30, 2018 is as follows:

	Number of shares	Weighted average price
Options outstanding at December 31, 2017	6,342,526	$ 6.51
Options granted	2,172,102	$ 8.42
Less:		
Options exercised	1,094,324	$ 5.60
Options canceled or expired	338,250	$ 7.03
Options outstanding at September 30, 2018	7,082,054	$ 7.21
Exercisable at September 30, 2018	2,965,695	$ 6.20

The fair value of each stock option award granted during the nine months ended September 30, 2018 was estimated as of the grant date using a trinomial lattice model with the following weighted average assumptions:

	Nine Months Ended September 30, 2018
Expected term (in years)	2.0 - 4.0
Risk-free interest rate (%)	2.4%

Expected volatility (%)	35.6% - 45.5%
Dividend yield (%)	—
Weighted average fair value/share at grant date	$2.63

As of September 30, 2018, there was approximately $3.2 million of unrecognized share based compensation expense related to stock options that will be recognized over a weighted-average period of approximately 1.0 years.

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A summary of the restricted stock activity under the Company's plans for the nine months ended September 30, 2018 is as follows:

	Number of shares	Weighted average price
Nonvested at December 31, 2017	327,211	$ 7.27
Granted	87,811	$ 12.87
Vested	(132,514)	7.27
Nonvested at September 30, 2018	282,508	$ 9.01

Employee Stock Purchase Plan

We offer an employee stock purchase plan ("ESPP") through which eligible employees may purchase shares of our common stock at a discount. On May 25, 2017, the Company amended the ESPP, increasing the discount from 5% to 15% of the fair market value of the Company's common stock. As a result of this change, we began recording stock based compensation expense related to the ESPP during the quarter ended September 30, 2017.

During the three months ended September 30, 2018 and 2017, employees purchased 21,100 and 23,664 shares, respectively under the ESPP. The expense recorded for these periods was approximately $55,857 and $41,907, respectively. During the nine months ended September 30, 2018 and 2017, employees purchased 87,288 and 74,756 shares, respectively under the ESPP. The expense recorded for these periods was approximately $166,191 and $41,907, respectively.

Public Offering of Common Stock
In August 2018, the Company completed an offering of 11,270,000 shares of registered common stock, at a price of $12.75 per share, for gross proceeds of approximately $143.7 million. The Company received approximately $135.1 million in net proceeds after deducting underwriting fees of approximately $8.6 million. The Company used $20.0 million of the net proceeds to pay down the Revolving Credit Facility and plans to use the remaining net proceeds for the acquisition of Genoptix.

Note I – Commitments and Contingencies

During the three and nine months ended September 30, 2018, the Company entered into leases of approximately $3.8 million and $7.6 million. These leases were primarily to fund the construction of our laboratory in Houston, Texas. These leases have 36 month terms, a $1.00 buyout option at the end of the term and interest rates ranging from 4.6% to 5.9%. The Company accounted for these leases as capital leases.
Legal Matters
The Company is involved in ongoing litigation with Health Discovery Corporation ("HDC") regarding the use of certain licensed technology under a Master License Agreement ("MLA") dated January 6, 2012 between the Company and HDC. As required under the MLA, the parties are required to submit such matters in dispute under the MLA to binding arbitration, which is expected to take place in December 2018. The Company is vigorously defending its legal rights and remedies pertaining to this licensing dispute. The Company does not believe, based on currently available information, that the outcome of this matter will have a material adverse effect on the Company's financial condition.

Note J – Related Party Transaction

During the three months ended September 30, 2018 and 2017, Steven C. Jones, a director, officer and shareholder of the Company, earned approximately $38,000 and $46,000, respectively, for consulting work performed in connection with his duties as Executive Vice President and for reimbursement of related expenses. During the same periods, Mr. Jones also earned $12,500 and $13,000, respectively, as compensation for his services on the Board. During the nine months ended September 30, 2018 and 2017, Mr. Jones earned approximately $125,000 and $164,000, respectively for consulting work performed in connection with his duties as Executive Vice President and for reimbursement of related expenses. During the same periods, Mr. Jones also earned $37,500 and $25,000, respectively as compensation for his services on the Board.

NEOGENOMICS, INC.
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On June 1, 2018, the Company granted stock options and restricted stock to each of its Board members as part of its annual Board compensation process. Mr. Jones was granted 3,017 stock options and 6,897 shares of restricted stock for his services on the Board. The options were granted at a price of $11.60 per option and each option had a fair market value of $3.74. The options vest on June 1, 2019. The restricted stock has a fair value of $11.60 per share and vests on June 1, 2019.

NEOGENOMICS, INC.
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Note K – Segment Information

The Company has two operating segments for which it recognizes revenue; Clinical Services and Pharma Services. Our Clinical Services segment provides various clinical testing services to community-based pathology practices, hospital pathology labs and academic centers with reimbursement from various payers including client direct billing, commercial insurance, Medicare and other government, and patients. Our Pharma Services segment supports pharmaceutical firms in their drug development programs by supporting various clinical trials and research.

In the fourth quarter of 2017, changes were made in the information provided to our Chief Operating Decision Maker ("CODM"); greater detail was provided regarding the performance of our Pharma business and our Clinical business as there was an increased focus on this financial data due to the growth of our Pharma business. Our CODM also changed the way he was using this financial information to make strategic decisions regarding allocation of resources and evaluating performance of the Company. This resulted in a change in our operating segments to align with how the CODM views our business which resulted in two operating segments; a Pharma Services segment and a Clinical Services segment.

We have presented the financial information reviewed by the CODM including revenues, cost of revenue and gross margin for each of our operating segments. The segment information presented in these financial statements has been conformed to present segments on this revised basis for all prior periods. Assets are not presented at the segment level as that information is not used by the CODM.

The following table summarizes segment information for the three and nine month periods ended September 30, 2018 and 2017, respectively (in thousands).

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	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017 (as adjusted)	2018	2017 (as adjusted)
Net revenues:				
Clinical Services	$59,449	$51,187	$175,960	$159,642
Pharma Services	9,647	7,950	24,306	19,188
Total Revenue	$69,096	$59,137	$200,266	$178,830
Cost of revenue:				
Clinical Services	$31,509	$30,150	$94,586	$91,854
Pharma Services	5,266	4,092	15,525	11,780
Total Cost of Revenue	$36,775	$34,242	$110,111	$103,634
Gross Profit:				
Clinical Services	$27,940	$21,037	$81,374	$67,788
Pharma Services	4,381	3,858	8,781	7,408
Total Gross Profit	$32,321	$24,895	$90,155	$75,196
Operating expenses:				
General and administrative	$21,055	$18,268	$59,106	$53,717
Research and development	446	1,270	2,475	3,080
Sales and marketing	6,900	6,363	21,355	18,142
Loss on sale of Path Logic	—	1,058	—	1,058
Total operating expenses	28,401	26,959	82,936	75,997
Income (Loss) from Operations	3,920	(2,064)	7,219	(801)
Interest expense, net	1,873	1,398	4,766	4,173
Other (income) expense	(30)	—	31	—
Income (loss) before taxes	2,077	(3,462)	2,422	(4,974)
Income tax (benefit) expense	54	802	135	(30)
Net Income (Loss)	$2,023	$(4,264)	$2,287	$(4,944)

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Note L - Subsequent Events

Acquisition

On October 23, 2018, NeoGenomics Laboratories entered into an Agreement and Plan of Merger (the "Merger Agreement") with Genesis Acquisition Holding Corp. ("Genesis"), the parent company of Genoptix, Inc. (Genesis and its subsidiaries are generally referred to herein as "Genoptix"), Genoptix Merger Sub, Inc., a subsidiary of NeoGenomics Laboratories, and Ampersand 2014 Limited Partnership, solely in its capacity as stockholders' representative, pursuant to which NeoGenomics Laboratories will acquire all of the outstanding equity interests of Genesis in exchange for (i) $125.0 million in cash, and (ii) 1.0 million shares of NeoGenomics common stock (the "Transaction"). The cash portion of the purchase price is subject to adjustment for changes in Genesis' net working capital as of the closing of the acquisition and other adjustments as set forth in the Merger Agreement.

The closing of the acquisition is subject to various customary closing conditions, including, among others, (i) the absence of any order of any governmental authority that prohibits or materially restrains the acquisition and the absence of any proceeding brought by any government authority pending before any court of competent jurisdiction seeking such an order and (ii) any waiting periods imposed by any government authority necessary for the consummation of the transactions must have expired or been terminated.

END OF FINANCIAL STATEMENTS

NEOGENOMICS, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

NeoGenomics, Inc., a Nevada corporation (referred to collectively with its subsidiaries as "NeoGenomics", "we", "us", "our" or the "Company" in this Form 10-K) is the registrant for SEC reporting purposes. Our common stock is listed on the NASDAQ Capital Market under the symbol "NEO".

Introduction

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

Overview

We operate a network of cancer-focused genetic testing laboratories in the United States as well as a laboratory in Switzerland. Our mission is to improve patient care through exceptional genetic and molecular testing services. Our vision is to become the World's leading cancer testing and information company by delivering uncompromising quality, exceptional service and innovative solutions.

As of September 30, 2018, the Company had laboratory locations in Ft. Myers and Tampa, Florida; Atlanta, Georgia; Aliso Viejo and Fresno, California; Houston, Texas; Nashville, Tennessee; and Rolle, Switzerland. The Company currently offers the following types of genetic and molecular testing services:

a) Cytogenetics - the study of normal and abnormal chromosomes and their relationship to disease. It involves looking at the chromosome structure to identify changes from patterns seen in normal chromosomes. Cytogenetic studies are often utilized to answer diagnostic, prognostic and predictive questions in the treatment of hematological malignancies.

b) Fluorescence In-Situ Hybridization ("FISH") - 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. The technique uses fluorescent probes that bind to only those parts of the chromosome with which they show a high degree of sequence similarity. Fluorescence microscopy is used to visualize the fluorescent probes bound to the chromosomes. FISH can be used to help identify a number of gene alternations, such as amplification, deletions, and translocations.

c) Flow cytometry - 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 analyzed as they flow in a fluid stream through a beam of light. The properties measured in these antibodies include the relative size, relative granularity or internal complexity, and relative fluorescence intensity. These fluorescent antibodies bind to specific cell surface antigens and are used to identify malignant cell populations. Flow cytometry is typically performed in diagnosing a wide variety of leukemia and lymphoma neoplasms. Flow cytometry is also used to monitor patients through therapy to determine whether the disease burden is increasing or decreasing, otherwise known as minimal residual disease monitoring.

d) Immunohistochemistry ("IHC") and Digital Imaging – Refers to the process of localizing proteins in cells of a tissue section and relies on the principle of antibodies binding specifically to antigens in biological tissues. IHC is widely used in the diagnosis of abnormal cells such as those found in cancerous tumors. 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. Digital imaging allows clients to see and utilize scanned slides and perform quantitative analysis for certain stains. Scanned slides are received online in real time and can be previewed often a full day before the glass slides can be shipped back to

clients.

e) Molecular testing - a rapidly growing cancer testing methodology that focuses 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 DNA fragment length analysis, real-time polymerase chain reaction ("RT-PCR") RNA analysis, bi-directional Sanger sequencing analysis, and Next-Generation Sequencing ("NGS").

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f) Pathology consultation - services provided to clients whereby our pathologists review surgical samples on a consultative basis. NeoGenomics pathologists are some of the foremost experts on pathology in the country, and are used as experts on difficult and challenging cases.

Clinical Services Segment

The clinical 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, hospital pathology labs and academic centers empowers them to expand their breadth of testing and provide a menu of services that matches or exceeds the level of service found in any center of excellence around the world. Community-based pathology practices and hospital pathology labs may order certain testing services on a technical component only ("TC" or "tech-only") basis, which allows them to participate in the diagnostic process by performing the professional component ("PC") interpretation services without having to hire laboratory technologists or purchase the sophisticated equipment needed to perform the technical component of the tests. We also support our pathology clients with interpretation and consultative services using our own specialized team of pathologists for difficult or complex cases and provide overflow interpretation services when requested by clients.

In addition, 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 comprehensive service offering where we perform both the technical and professional components of the tests ordered. In certain instances larger clinician practices have begun to internalize pathology interpretation services, and our "tech-only" service offering allows these larger clinician practices to also participate in the diagnostic process by performing the PC interpretation services on TC testing performed by NeoGenomics. In these instances NeoGenomics will typically provide all of the more complex, Molecular testing services.

Pharma Services Segment

Our Pharma Services segment supports pharmaceutical firms in their drug development programs by supporting various clinical trials and research. This portion of our business often involves working with the pharmaceutical firms (sponsors) on study design as well as performing the required testing. Our medical team often advises the sponsor and works closely with them as specimens are received from the enrolled sites. We also work on developing tests that will be used as part of a companion diagnostic to determine patients' response to a particular drug. As studies unfold, our clinical trials team reports the data and often provide key analysis and insights back to the sponsors.

Our Pharma Services segment provides comprehensive testing services in support of our pharmaceutical clients' oncology programs from discovery to commercialization. In biomarker discovery, our aim is to help our customers discover the right content. We help our customers develop a biomarker hypothesis by recommending an optimal platform for molecular screening and backing our discovery tools with the informatics to capture meaningful data. In other pre and non-clinical work, we can use our platforms to characterize markers of interest. Moving from discovery to development, we help our customers refine their biomarker strategy and, if applicable, develop a companion diagnostic pathway using the optimal technology for large-scale clinical trial testing.

Whether serving as the single contract research organization or partnering with one, our Pharma Services team provides significant technical expertise, working closely with our customers to support each stage of clinical trial development. Each trial we support comes with rapid turnaround time, dedicated project management and quality assurance oversight. We have experience in supporting submissions to the Federal Food and Drug Administration ("FDA") for companion diagnostics. Our Pharma Services strategy is focused on helping bring more effective oncology treatments to market through providing world class laboratory services in oncology to key pharmaceutical companies in the industry.

Our Pharma Services revenue consists of three revenue streams:

- Clinical trials and research;

- Validation laboratory services; and
- Data Services

2018 Focus Area: Commit to Lead

Over the past several years, NeoGenomics has experienced rapid growth including organic growth from offering new tests to existing customers, growth from gaining market share from our competitors, and growth from acquisitions. We expect to continue to grow our business in 2018 and are focused on several initiatives to continue to build our Company to be the World's leading cancer testing and information company.

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World Class Culture

To strengthen our world-class culture by improving teamwork and emphasizing effective communication. We will focus on career development and mobility through mentoring and training opportunities to enhance and capitalize on the talent within our Company.

Uncompromising Quality

To provide uncompromising quality through company-wide leadership, training and employee engagement. Our laboratory teams will focus on quality by improving corrective and preventative metrics in the laboratory.

Exceptional Service and Growth

To pursue exceptional service and growth through developing cross functional teams to analyze key market segments and engaging customers within these segments to determine ways to further drive growth and pursue excellent service. We will continue to pursue market share gains in both our Clinical and Pharma Services businesses.

Execution of Focus

These critical success factors have been communicated throughout our Company. We have structured departmental goals around these factors and have created employee incentive plans in which every employee will have a meaningful incentive for our success.

As we focus on profitable growth, we will aggressively pursue large purchasing group contracts. In 2017, we were successful in gaining market share by entering into contracts with managed care organizations and large hospital groups, this will continue to be part of our strategy going forward. In addition, our molecular testing menu remains a strong selling point as it enables us to offer clients a "one stop shop" where they can send all of their oncology testing rather than using multiple labs.

Innovation and changes in science and technology will lead to new therapeutic and diagnostic tests. Our Company will strive to lead in innovation with continued expansion of our test menu for oncology and expansion of liquid biopsy tests. We will continue to work with pharmaceutical clients on their clinical trials and will work to be on the leading edge of developments in the field of oncology.

We believe lower cost and increased value of testing is extremely important to the healthcare industry and creates a competitive advantage for our company. We will invest in information technology, automation and best practices to continually drive down the cost of testing. We will continue to expand our test menu and remain at the forefront of the ongoing revolution in cancer related genetic and molecular testing to achieve our vision of becoming the world's leading cancer testing and information company.

We are significantly expanding our capacity, specifically in the Pharma Services area of our business. The opening of our laboratory in Rolle, Switzerland as well as the expansion of our Houston laboratory and the opening of a small laboratory in Atlanta, Georgia will allow us to better serve our existing Pharma Services clients and obtain new business in the U.S. and across Europe. We also announced a global strategic partnership with Pharmaceutical Product Development, LLC ("PPD"), which we expect to result in the opening of laboratories internationally, including in Singapore and China. Our strong growth momentum as well as our added capacity will create opportunities for improved quality and revenue growth.

Competitive Strengths

Turnaround Times

We strive to provide industry leading turnaround times for test results to our clients nationwide. By providing information to our clients in a rapid manner, physicians 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 average 5-7 day turnaround time for molecular testing and our average 1 day turnaround time for flow cytometry and pathology 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. Rapid 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 fast turnaround times are a key differentiator versus other national laboratories, and our clients often cite them as a key factor in their relationship with us.

World-class Medical and Scientific Team

Our team of medical professionals and Ph.Ds. are specialists in the field of genetics, oncology and pathology. As of September 30, 2018, we employed, or are contracted with, over 60 full-time MDs and PhDs.

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Extensive Tech-Only Service Offerings

We currently have the most extensive menu of tech-only FISH services in the country as well as extensive and advanced tech-only flow cytometry and IHC testing services. These types of testing services allow the professional interpretation component of a test to be performed and billed separately by our physician clients. Our FISH, flow cytometry and other tech-only service offerings allow properly trained and credentialed community-based pathologists to extend their own practices by performing professional interpretations services, which allows them to better service the needs of their local clientele without the need to invest in the lab equipment and personnel required to perform the technical component of genetic and molecular testing.

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

Global Service Offerings

We offer a comprehensive suite of technical and interpretation services, to meet the needs of those clients who are not credentialed and trained in interpreting genetic tests and who require pathology 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 service of interpreting the results of those tests. Our professional staff is also available for post-test consultative services. Clients using our global service offering 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 support our clients who need help to satisfy the continued and demanding requirements of their practice. Our reporting capabilities allow for all relevant case data from our global services to be captured in one summary report. When providing global services, NeoGenomics bills for 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, webinars and custom tailored on-site training programs that are designed to prepare clients to utilize our tech-only services. We offer training and information on new cancer tests and the latest developments in the field of molecular genetic testing. 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 Technologies and Instrumentation

We use some of the most advanced testing technologies and instrumentation in the laboratory industry. The use of next generation sequencing in our molecular testing allows us to detect multiple mutations and our proprietary techniques allow us to achieve high sensitivity in our next generation sequencing testing. In addition, we use high sensitivity Sanger sequencing, RNA and DNA quantification, SNP/Cytogenetic arrays, Fragment Length analysis, and other molecular testing technologies. Our automated FISH and Cytogenetics tools allow us to deliver the highest

quality testing to our clients. NeoGenomics is continually testing new laboratory equipment in order to remain at the forefront of new developments in the testing field.

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Laboratory Information System

We believe we have a state-of-the-art 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 FISH and flow cytometry 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 using our system. Our customized reporting solution also allows our clients to incorporate test results performed on ancillary tests not performed at NeoGenomics into summary report templates. This FlexREPORT feature has been well-received by clients.

We also have a system built specifically for our Pharma Services division, and is geared to meet the unique needs of pharma sponsors on their clinical studies. This system allows for detail specimen tracking and chain of custody information required by pharma services sponsors in their clinical trials.

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 team for the clinical cancer testing services is organized into five regions (Northeast, Southeast, North Central, South Central and West). Our Pharma Services division has a dedicated team of business development specialists who are experienced in working with pharma sponsors and helping them with the testing needs of their research and development projects as well as Phase 1-3 studies. These sales representatives utilize our custom Customer Relationship Management System ("CRM") to manage their territories, and we have integrated all of the important customer care functionality within our LIS into the CRM so that our sales representatives can stay informed of emerging issues and opportunities within their regions. Our in-house customer care team is aligned with our field sales team to serve the needs of our clients by utilizing the same LIS and CRM. Our field teams can see in real-time when a client calls the laboratory, the reason for the call, the resolution, and if face-to-face interaction is needed for follow-up.

Geographic Locations

Many high complexity laboratories within the cancer testing industry have 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, and have developed our laboratory facility strategy accordingly. We have eight facilities, including three large laboratory locations in Fort Myers, Florida, Aliso Viejo, California, and Houston Texas. We also have five smaller laboratory locations in Fresno, California, Nashville, Tennessee, Tampa, Florida, Atlanta, Georgia and Rolle, Switzerland. We have recently completed construction of our new expanded laboratory in Houston, Texas and have plans to operate laboratories in Shanghai, China and Singapore.

We intend to continue our growth 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 tests are typically individualized for a small sub-set of patients with a specific subtype of cancer. The therapeutic target in the genomic pathway 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.

Seasonality

The majority of our testing volume is dependent on patients being treated by hematology/oncology professionals and other healthcare providers. The volume of our testing services generally declines modestly during the summer vacation season, year-end holiday periods and other major holidays, particularly when those holidays fall during the middle of the week. In addition, the volume of our testing tends to decline due to extreme adverse weather conditions, such as excessively hot or cold spells, heavy snow, hurricanes or tornadoes in certain regions, consequently reducing revenues and cash flows in any affected period. During the third quarter of 2017, Hurricane Harvey forced the closure of our Houston laboratory for three days and Hurricane Irma forced

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the closure of our Fort Myers facility for five days. Therefore, comparison of the results of successive periods may not accurately reflect trends for future periods.

Please see the section captioned Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Annual Report on Form 10-K for the year ended December 31, 2017, as filed with the SEC on March 13, 2018, for a detailed description of our business.

Proposed Acquisition of Genoptix

On October 23, 2018, NeoGenomics Laboratories entered into an Agreement and Plan of Merger (the "Merger Agreement") with Genesis, the parent company of Genoptix, Inc., Genoptix Merger Sub, Inc., a subsidiary of NeoGenomics Laboratories, and Ampersand 2014 Limited Partnership, solely in its capacity as stockholders' representative, pursuant to which NeoGenomics Laboratories will acquire all of the outstanding equity interests of Genesis in exchange for (i) $125.0 million in cash, and (ii) 1.0 million shares of NeoGenomics common stock. The cash portion of the purchase price is subject to adjustment for changes in Genesis' net working capital as of the closing of the acquisition and other adjustments as set forth in the Merger Agreement.

The closing of the acquisition is subject to various customary closing conditions, including, among others, (i) the absence of any order of any governmental authority that prohibits or materially restrains the acquisition and the absence of any proceeding brought by any government authority pending before any court of competent jurisdiction seeking such an order and (ii) any waiting periods imposed by any government authority necessary for the consummation of the transactions must have expired or been terminated.

For additional information regarding the Merger Agreement, see our 8-K filed with the SEC on October 26, 2018.

Results of Operations for the Three and Nine Months Ended September 30, 2018 as Compared to the Three and Nine Months Ended September 30, 2017

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017 (as adjusted)	2018	2017 (as adjusted)
Net revenue	100.0 %	100.0 %	100.0 %	100.0 %
Cost of revenue	53.2 %	57.9 %	55.0 %	58.0 %
Gross Profit	46.8 %	42.1 %	45.0 %	42.0 %
Operating expenses:				
General and administrative	30.5 %	30.9 %	29.5 %	30.0 %
Research and development	0.6 %	2.1 %	1.2 %	1.7 %
Sales and marketing	10.0 %	10.8 %	10.7 %	10.1 %
Loss on sale of Path Logic	— %	1.8 %	— %	0.6 %
Total operating expenses	41.1 %	45.6 %	41.4 %	42.5 %
Income from operations	5.7 %	(3.5)%	3.6 %	(0.4)%
Interest expense, net	2.7 %	2.4 %	2.4 %	2.3 %
Other expense	— %	— %	— %	— %
Income (loss) before income taxes	3.0 %	(5.9)%	1.2 %	(2.8)%
Income tax expense (benefit)	0.1 %	1.4 %	0.1 %	— %

Net income (loss)	2.9 %	(7.2)%	1.1 %	(2.8)%

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The following table presents consolidated net revenue for the test type indicated. Clinical Services revenue excludes tests performed by Path Logic, which was sold on August 1, 2017 ($ in thousands):

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2018	2017 (as adjusted)	$ Change	% Change	2018	2017 (as adjusted)	$ Change	% Change
Clinical Services	$59,449	$50,740	$8,709	17.2 %	$175,960	$156,127	$19,833	12.7 %
Pharma Services	9,647	7,950	1,698	21.4 %	24,306	19,188	5,118	26.7 %
Total Revenue	$69,096	$58,690	$10,406	17.7 %	$200,266	$175,315	$24,951	14.2 %

Revenue

Clinical Services revenue for the three and nine month periods ending September 30, 2018, increased $8.7 million and $19.8 million, respectively, compared to the same periods in 2017. Testing volumes also increased in our clinical genetic testing business by approximately 13.7% and 14.4%, respectively, for the three and nine month periods ending September 30, 2018 compared to the same periods in 2017. The increases in revenue and volume were due to strong, balanced growth. For both the three and nine month periods ending September 30, 2018 compared to the same periods in 2017, there was double digit growth in all modalities. We continue to negotiate managed care and group purchasing contracts to increase our in-network coverage, which should improve reimbursement rates and facilitate the addition of new accounts.

Pharma Services revenue for the three and nine month periods ending September 30, 2018 increased $1.7 million and $5.1 million, respectively, as compared to the same periods in 2017. In addition, our backlog of signed contracts has continued to grow from $89.6 million as of June 30, 2018 to $97.2 million as of September 30, 2018. The recently completed expansion of our Pharma facility in Houston, Texas provides additional capacity to manage this backlog.

We also expect to achieve accelerating revenue growth in our Pharma Services segment due to our international presence. In addition to our recently opened laboratory in Rolle, Switzerland, we announced a global strategic partnership with Pharmaceutical Product Development, LLC ("PPD") in 2018, which we expect to result in the opening of laboratories internationally, including in Singapore and China.

The following table shows Clinical Services revenue, cost of revenue, requisitions received and tests performed for the three and nine months ended September 30, 2018 and 2017. This data excludes tests performed for Pharma customers and tests performed by Path Logic, which was sold on August 1, 2017.

Testing revenue and cost of revenue are presented in thousands below:

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2018	2017 (as adjusted)	% Change	2018	2017 (as adjusted)	% Change
Requisitions received (cases)	108,467	98,031	10.6 %	323,682	291,806	10.9 %
Number of tests performed	185,738	163,289	13.7 %	551,721	482,476	14.4 %
Avg. number of tests/requisition	1.71	1.67	2.8 %	1.70	1.65	3.1 %
Total clinical services testing revenue	$59,449	$50,740	17.2 %	$175,960	$156,127	12.7 %
Average revenue/requisition	$548	$518	5.9 %	$544	$535	1.6 %
Average revenue/test	$320	$311	3.0 %	$319	$324	(1.4)%

Cost of revenue	$31,509	$29,652	6.3 %	$94,586	$87,889	7.6 %
Average cost/requisition	$290	$302	(4.0)%	$292	$301	(3.0)%
Average cost/test	$170	$181	(6.3)%	$171	$182	(5.9)%

We continue to realize growth in our clinical testing revenue which we believe is the direct result of our efforts to innovate by developing and maintaining one of the most comprehensive cancer testing menus in the industry. Our broad test menu enables

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our sales teams to identify opportunities for increasing revenues from existing clients and allows us to gain market share from competitors as well as attract new clients looking for a one-stop shop.

Average revenue per test increased 3.0% for the three month period and decreased slightly for the nine month period ended September 30, 2018 as compared to the corresponding periods in 2017. These changes reflect the positive impact of our internal reimbursement initiatives, partially offset by changes in Medicare reimbursement and regulation.

Cost of Revenue and Gross Profit

Average cost per test decreased 6.3% and 5.9% for the three and nine month periods ended September 30, 2018, respectively, as compared to the corresponding periods in 2017, primarily due to increased automation in our laboratories as well as the benefit of increased economies of scale. In addition, our laboratory teams have been extremely focused on reducing their cost per test across all departments.

Cost of revenue includes payroll and payroll related costs for performing tests, maintenance and 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.

The consolidated cost of revenue and gross profit metrics are as follows ($ in thousands):

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2018	2017 (as adjusted)	% Change	2018	2017 (as adjusted)	% Change
Cost of revenue:						
Clinical Services	$31,509	$30,150	4.5 %	$94,586	$91,854	3.0 %
Pharma Services	5,266	4,092	28.7 %	15,525	11,780	31.8 %
Total Cost of Revenue	$36,775	$34,242	7.4 %	$110,111	$103,634	6.3 %
Cost of revenue as a % of revenue	53.2 %	57.9 %		55.0 %	58.0 %	
Gross Profit:						
Clinical Services	$27,940	$21,037	32.8 %	$81,374	$67,788	20.0 %
Pharma Services	4,381	3,858	13.6 %	8,781	7,408	18.5 %
Total Gross Profit	$32,321	$24,895	29.8 %	$90,155	$75,196	19.9 %
Gross Profit Margin	46.8 %	42.1 %		45.0 %	42.0 %	

Consolidated cost of revenue in dollars increased for the three and nine months ended September 30, 2018 when compared to the same periods in 2017 while cost of revenue as a percentage of revenue decreased year-over-year. These increases in cost of revenue are largely due to the increase in our testing volumes.

Gross profit margin increased for the three and nine months ended September 30, 2018, as compared to the same periods in 2017. This improvement was partially due to an increase in our revenue per test for the three months ended September 30, 2018 as well as a decrease in our cost per cost. This increase was also driven by the divestiture of Path Logic in the third quarter of 2017.

General and Administrative Expenses

General and administrative expenses consist of employee-related costs (salaries, fringe benefits, and stock based compensation expense) for our billing, finance, human resources, information technology and other administrative personnel. We also allocate professional services, facilities expense, IT infrastructure costs, depreciation, amortization and other administrative-related costs to general and administrative expenses.

Consolidated general and administrative expenses for the periods presented are as follows:

($ in thousands)	Three Months Ended September 30, 2018	2017 (as adjusted)	$ Change	% Change	Nine Months Ended September 30, 2018	2017 (as adjusted)	$ Change	% Change
General and administrative	$21,055	$18,268	$2,787	15.3 %	$59,106	$53,717	$5,389	10.0 %
As a % of revenue	30.5 %	30.9 %			29.5 %	30.0 %		

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General and administrative expenses increased $2.8 million for the three month period ended September 30, 2018 as compared to the same period in 2017 and increased $5.4 million for the nine month period ended September 30, 2018. The increases reflect higher payroll and payroll related expenses due to increases in headcount as well as increases in professional fees. Additionally, these expenses include approximately $2.5 million of moving expenses during 2018 associated with the relocation of our expanded Houston, Texas laboratory.

We expect our general and administrative expenses to increase but remain stable as a percentage of revenue as we add employee and equity-related compensation expenses, increase our billing and collections activities, incur additional expenses associated with the expansion of our facilities and as we continue to expand our physical infrastructure to support our anticipated growth.

Research and Development Expenses

Research and development expenses relate to cost of developing new proprietary and non-proprietary genetic tests, including payroll and payroll related costs, maintenance and depreciation of laboratory equipment, laboratory supplies (reagents), and outside consultants and experts assisting our research and development team.

Consolidated research and development expenses for the periods presented are as follows:

	Three Months Ended September 30,				Nine Months Ended September 30,			
($ in thousands)	2018	2017 (as adjusted)	$ Change	% Change	2018	2017 (as adjusted)	$ Change	% Change
Research and development	$446	$1,270	$(824)	(64.9)%	$2,475	$3,080	$(605)	(19.6)%
As a % of revenue	0.6 %	2.1 %			1.2 %	1.7 %		

Research and development expenses decreased $0.8 million and $0.6 million for the three and nine months ended September 30, 2018, respectively, as compared to the same periods in 2017. This decrease was largely attributable to reductions in stock based compensation expense, including the impact of our adoption of ASU 2018-07 in the second quarter of 2018.

We anticipate research and development expenditures will increase in future quarters as we invest in innovation projects and bringing new tests to market.

Sales and Marketing Expenses

Sales and marketing expenses are primarily attributable to employee-related costs including sales management, sales representatives, sales and marketing consultants and marketing and customer service personnel.

Consolidated sales and marketing expenses for the periods presented are as follows:

	Three Months Ended September 30,				Nine Months Ended September 30,			
($ in thousands)	2018	2017 (as adjusted)	$ Change	% Change	2018	2017 (as adjusted)	$ Change	% Change
Sales and marketing	$6,900	$6,363	$ 537	8.4 %	$21,355	$18,142	$ 3,213	17.7 %
As a % of revenue	10.0 %	10.8 %			10.7 %	10.1 %		

Sales and marketing expenses increased $0.5 million and $3.2 million for the three and nine months ended September 30, 2018, respectively, as compared to the same periods in 2017. This increase is primarily attributable to higher commissions due to our increase in revenues as well as the expansion of our sales team and continued investment in marketing. We expect higher commissions expense in the coming quarters as the sales representatives' focus on generating new business with a focus on oncology office sales. We expect our sales and marketing expenses over the long term to increase as our test volumes increase.

Interest Expense, net

Net interest expense is comprised of interest incurred on our term debt, revolving credit facility and our capital lease obligations offset by the interest income we earn on cash deposits. Net interest expense for the three months ending September 30, 2018 increased 34.0%, or $0.5 million, compared to the same period in 2017. Net interest expense for the nine month period ending September 30, 2018 increased approximately 14.2%, or $0.6 million, compared to the same periods in 2017. These increases reflect changes in interest rates as well as the additional $30 million term loan entered into in the second quarter of 2018. We expect our interest expense to fluctuate based on timing of advances and payments on our revolving credit facility.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Earnings Per Share

The following table provides consolidated net income (loss) available to common stockholders for each period along with the computation of basic and diluted net income (loss) per share for the three and nine months ended September 30, 2018 and 2017:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in thousands, except per share amounts)	2018	2017 (as adjusted)	2018	2017 (as adjusted)
Net income (loss) available to common shareholders	$2,023	$(6,915)	$5,735	$(12,800)
Basic weighted average shares outstanding	87,253	79,617	87,381	79,208
Effect of potentially dilutive securities	3,646	—	2,544	—
Diluted weighted average shares outstanding	90,899	79,617	89,925	79,208
Basic net income (loss) per share	$0.02	$(0.09)	$0.07	$(0.16)
Diluted net income (loss) per share	$0.02	$(0.09)	$0.06	$(0.16)

NEOGENOMICS, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Non-GAAP Measures

Use of Non-GAAP Financial Measures

The Company's financial results are provided in accordance with accounting principles generally accepted in the United States of America (GAAP) and using certain non-GAAP financial measures. Management believes that presentation of operating results using non-GAAP financial measures provides useful supplemental information to investors and facilitates the analysis of the Company's operating results and comparison of operating results across reporting periods and between entities. Management also uses non-GAAP financial measures for financial and operational decision making, planning and forecasting purposes and to manage the Company's business. Management believes that Adjusted EBITDA is a key metric for our business because it is used by our lenders in the calculation of our debt covenants. Management also believes that these non-GAAP financial measures enable investors to evaluate our operating results and future prospects in the same manner as management. The non-GAAP financial measures do not replace the presentation of GAAP financial results and should only be used as a supplement to, and not as a substitute for, the Company's financial results presented in accordance with GAAP. There are limitations inherent in non-GAAP financial measures because they exclude charges and credits that are required to be included in a GAAP presentation, and do not therefore present the full measure of the Company's recorded costs against its net revenue. In addition, the Company's definition of the non-GAAP financial measures below may differ from non-GAAP measures used by other companies.

Definitions of Non-GAAP measures

Non–GAAP EBITDA

We define "EBITDA" as net income from continuing operations before: (i) interest expense, (ii) tax expense, (iii) depreciation and amortization expense.

Non–GAAP Adjusted EBITDA

We define "Adjusted EBITDA" as net income from continuing operations before: (i) interest expense, (ii) tax expense, (iii) depreciation and amortization expense, (iv) non-cash, stock-based compensation expense, and if applicable in a reporting period (v) acquisition-related transaction expenses and other significant non-recurring or non-operating (income) or expenses.

Basis for Non-GAAP Adjustments

Our basis for excluding certain expenses from GAAP financial measures, are outlined below:

- Interest expense – The capital structure of companies significantly affects the amount of interest expense incurred. This expense can vary significantly between periods and between companies. In order to compare performance between periods and companies that have different capital structures and thus different levels of interest obligations, we exclude this expense.

- Income tax expense (benefit) – The tax positions of companies can vary because of their differing abilities to take advantage of tax benefits and because of the tax policies of the jurisdictions in which they operate. As a result,

effective tax rates and the provision for income taxes can vary considerably among companies. In order to compare performance between companies, we exclude this expense (benefit).

- Depreciation expense – Companies utilize assets with different useful lives and use different methods of both acquiring and depreciating these assets. These differences can result in considerable variability in the costs of productive assets and the depreciation and amortization expense among companies. In order to compare performance between companies, we exclude this expense.

- Amortization expense – The intangible assets that give rise to this amortization expense relate to acquisitions, and the amounts allocated to such intangible assets and the terms of amortization vary by acquisition and type of asset. We exclude these items to provide a consistent basis for comparing operating results across reporting periods, pre and post-acquisition.

- Stock-based compensation expenses – Although stock-based compensation is an important aspect of the compensation paid to our employees and consultants, the related expense is substantially driven by changes in the Company's stock price in any given quarter, which can fluctuate significantly from quarter to quarter. The variable accounting treatment causing expense to be driven by changes in quarterly stock price is required because many of the Company's full-time physicians

reside in California and are classified as consultants rather than employees due to state regulations. Prior to ASU 2018-07, which we adopted in the second quarter of 2018, GAAP provided that variable stock- based compensation treatment be applied for non-employee service providers. This variable accounting treatment caused significant fluctuations in quarterly expense based on changes in the Company's stock price from one quarter to the next and at times resulted in large positive or negative impacts to total operating expenses. Without adjusting for these non-cash expenses, the Company believes it would be difficult to compare financial results from operations across reporting periods on a consistent basis.

- Moving expenses – These expenses include costs associated with the move of our Irvine, California facility into our Aliso Viejo facility in March 2017 as well as costs associated with the relocation of our Houston, Texas facility into our larger, facility in Houston, Texas in May 2018. Equipment was moved and re-validated in the new locations, significant overtime and investment of resources to coordinate the moves was incurred and costs were incurred to clean out and restore the facilities to their original state. We are adjusting for these costs in Adjusted EBITDA as the moves were related to the Clarient acquisition and will not be annually recurring items. Without adjusting for these expenses, the Company believes it would be difficult to compare financial results from operations across reporting periods on a consistent basis.

We believe that EBITDA and Adjusted EBITDA provide more consistent measures of operating performance between entities and across reporting periods by excluding cash and non-cash items of expense that can vary significantly between companies. In addition, adjusted EBITDA is a metric that is used by our lenders in the calculation of our debt covenants. Adjusted EBITDA also assists investors in performing analysis that is consistent with financial models developed by independent research analysts.

EBITDA and Adjusted EBITDA (as defined by us) are not measurements under GAAP and may differ from non-GAAP measures used by other companies. We believe there are limitations inherent in non-GAAP financial measures such as EBITDA and 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, we encourage investors to consider both non-GAAP results together with GAAP results in analyzing our financial performance.

The following is a reconciliation of GAAP net income (loss) to Non-GAAP EBITDA and Adjusted EBITDA for the three and nine months ended September 30, 2018:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017 (as adjusted)	2018	2017 (as adjusted)
Net Income (Loss) (GAAP)	$2,023	$(4,264)	$2,287	$(4,944)
Adjustments to Net Income (Loss):				
Interest expense, net	1,873	1,398	4,766	4,173
Income tax expense (benefit)	54	802	135	(30)
Amortization of intangibles	1,421	1,751	4,255	5,201
Depreciation	4,034	3,833	11,477	11,739
EBITDA	$9,405	$3,520	22,920	16,139

Further Adjustments to EBITDA:				
Facility moving expenses/other	670	5	2,486	620
Loss on sale of business	—	1,058	—	1,058
Non-cash, stock-based compensation	1,191	2,760	5,148	5,812
Adjusted EBITDA (non-GAAP)	$11,266	$7,343	$30,554	$23,629

Trade Accounts Receivable

Clinical Services

Accounts receivable are reported for all clinical services payers based on the amount expected to be collected, which considers implicit price concessions. Implicit price concessions represent differences between amounts billed and the estimated consideration the Company expects to receive based on negotiated discounts, historical collection experience and other anticipated adjustments, including anticipated payer denials.

NEOGENOMICS, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Pharma Services

The Company negotiates billing schedules and payment terms on a contract-by-contract basis which often includes payments based on certain milestones being achieved. Receivables are generally reported over time based on the number of units completed, which aligns with the progress of the Company towards fulfilling its obligations under the contract.

Liquidity and Capital Resources

To date, we have financed our operations primarily through cash generated from operations, public and private sales of equity securities, borrowings against our accounts receivables balances and bank debt.

The following table presents a summary of our consolidated cash flows for operating, investing and financing activities for the nine months ended September 30, 2018 and 2017 as well balances of cash and cash equivalents and working capital (in thousands).

	Nine Months Ended September 30,	
	2018	2017 (as adjusted)
Net cash provided by (used in):		
Operating activities	$29,333	$12,278
Investing activities	(11,091)	(10,167)
Financing activities	87,412	(2,425)
Effects of foreign exchange rate changes	(35)	—
Net change in cash and cash equivalents	105,619	(314)
Cash and cash equivalents, beginning of period	$12,821	$12,525
Cash and cash equivalents, end of period	$118,440	$12,211
Working Capital,[(1)] end of period	$147,215	$45,693

[(1)] Defined as current assets less current liabilities.

Cash Flows from Operating Activities

During the nine months ended September 30, 2018, cash flows from operating activities were $29.3 million, a $17.1 million increase compared to the same period in 2017. The increase was primarily due to an increase in accounts payable and other accrued expenses of $6.9 million as well as a decrease in accounts receivable of $5.6 million. Our increase in accounts payable and accrued expenses primarily reflects higher payroll and payroll-related expenses and increased accrued expenses associated with higher test volumes and strategic initiatives. Our receivables have decreased over this period resulting in a reduction in our DSOs. The change in cash flows from operations is also due to our net income for the period ending September 30, 2018 compared to our net loss for the period ended September 30, 2017.

Cash Flows from Investing Activities

During the nine months ended September 30, 2018, cash used in investing activities increased by approximately $0.9 million compared to the same period in 2017, primarily due to costs incurred for the construction of our laboratory in Houston, Texas in 2018. This expanded facility will support our continued Pharma growth and accelerate our clinical growth in the state of Texas.

Cash Flows from Financing Activities

During the nine months ended September 30, 2018, cash provided by financing activities increased by approximately $89.8 million compared to the same period in 2017. Cash provided by financing activities at September 30, 2018 consisted primarily of net cash proceeds of $135.1 million from the equity offering completed in August 2018, partially offset by $50.1 million paid to redeem 6.9 million shares of Series A Redeemable Preferred Stock in June

2018. Cash flows from financing activities also included an increase in term loan outstanding of $30 million, partially offset by repayment of the revolving credit facility of $20 million during the nine month periods.

NEOGENOMICS, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Credit Facility

We entered into a senior secured credit facility in December 2016, which was subsequently amended in June 2018 to include additional loan capacity. In order to reduce our exposure to interest rate fluctuations on this floating rate debt obligation, we entered into interest rate swap agreements. For more information on these hedging instruments, see Note F to Consolidated Financial Statements herein. The interest rate swap agreement effectively converts a portion of our floating rate debt to a fixed obligation, thus reducing the impact of interest rate changes on future interest expense. We believe this strategy will enhance our ability to manage cash flow within our Company.

Liquidity Outlook

We had approximately $118.4 million in cash and cash equivalents as of September 30, 2018, an increase of $105.6 million from December 31, 2017. The increase in cash was largely attributable to proceeds received from the equity offering completed in August 2018 as well as cash generated from operations. In October 2018, we announced our agreement to acquire Genoptix for $125 million in cash and one million shares of NeoGenomics common stock (see Note L). We will fund this acquisition through use of our cash as well utilization of our revolving credit facility. Our revolving credit facility provides for up to $75 million in borrowing capacity of which at September 30, 2018, based on our level of adjusted EBITDA, approximately $71.0 million was available. We believe that the cash on hand, available credit lines and positive cash flows generated from operations will provide adequate resources to meet our projected cash requirements for at least the next 12 months from the issuance of these financial statements.

Our Credit Agreement contains certain provisions that would require a portion of the excess cash flow (as defined) to be repaid to our lenders. If required, the debt repayment would be paid within five business days after the filing of our Annual Compliance Certificate. As of September 30, 2018, we do not anticipate having an excess cash flow payment.

Capital Expenditures

We currently forecast capital expenditures in order to execute on our business plan and maintain growth; however the actual amount and timing of such capital expenditures will ultimately be determined by the volume of our business. We currently anticipate that our capital expenditures for the year ended December 31, 2018 will be in the range of $21 million to $23 million. During the nine months ended September 30, 2018, we purchased approximately $18.7 million of capital equipment, software and leasehold improvements of which $7.6 million was acquired through capital lease obligations. We have funded and plan to continue funding these capital expenditures with capital lease financing arrangements, cash, and through bank loan facilities if necessary.

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.

There have been no significant changes to our critical accounting policies from those disclosed in our Annual Report on Form 10-K for the year ended December 31, 2017, except for the adoption of new accounting standards, including the new standard related to revenue recognition. For further details regarding revenues and cash flows arising from contracts with customers, see Note C.

Related Party Transactions

During the three months ended September 30, 2018 and 2017, Steven C. Jones, a director, officer and shareholder of the Company, earned approximately $38,000 and $46,000, respectively for consulting work performed in connection with his duties as Executive Vice President and for reimbursement of related expenses. During the same period, Mr. Jones also earned $12,500 and $13,000, respectively, as compensation for his services on the Board. During the nine months ended September 30, 2018 and 2017, Mr. Jones earned approximately $125,000 and $164,000, respectively, for consulting work performed in connection with his duties as Executive Vice President and for reimbursement of

related expenses. During the same periods, Mr. Jones also earned $37,500 and $25,000, respectively, as compensation for his services on the Board.

On June 1, 2018, the Company granted stock options and restricted stock to each of its Board members as part of its annual Board compensation process. Mr. Jones was granted 3,017 stock options and 6,897 shares of restricted stock for his services on the

Board. The options were granted at a price of $11.60 per option and each option had a fair market value of $3.74. The options vest on June 1, 2019. The restricted stock has a fair value of $11.60 per share and vests on June 1, 2019.

Off-balance Sheet Arrangements

We do not use special purpose entities or other off-balance sheet financing techniques that we believe have, or are reasonably likely to have, a current or future material effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity or capital resources.

NEOGENOMICS, INC.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk is the potential loss arising from adverse changes in market rates and prices, such as foreign currency exchange rates, interest rates and other relevant market rate or price changes. We are exposed to market risk associated with changes in the LIBOR interest rate and foreign currency exchange rates. We regularly evaluate our exposure to such changes and may elect to minimize this risk through the use of interest rate swap agreements. For further details regarding our significant accounting policies relating to derivative instruments and hedging activities, see Note B to our Consolidated Financial Statements included in our Annual Report on Form 10-K. We do not have any material foreign operations or foreign sales and thus have limited 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 rules and forms, and that such information is accumulated and communicated to our management, including our principal executive officer and principal financial 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 and principal financial 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 and principal financial 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, 2018 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

NEOGENOMICS, INC.

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, see Note I.

ITEM 1A. RISK FACTORS

There have been no material changes in our risk factors from those set forth in Part I, Item 1A, "Risk Factors" contained in our Annual Report on Form 10-K for the for the year ended December 31, 2017; as filed with the SEC on March 13, 2018 except as follows:

Failure to complete the Transaction could negatively impact our business, financial condition, results of operations or stock prices.

Completion of the Transaction is conditioned upon the satisfaction of certain closing conditions. The required conditions to closing may not be satisfied in a timely manner, if at all. If the Transaction is not completed, our ongoing business may be adversely affected and will be subject to a number of risks and consequences, including the following:

- we must pay the substantial fees and expenses we incurred related to the Transaction, such as legal, accounting, consulting and synergy planning fees and expenses, even if the Transaction is not completed;
- matters relating to the Transaction may require substantial commitments of time and resources by our management, which could otherwise have been devoted to other opportunities that may have been beneficial to us;
- the market price of our common stock may decline to the extent that the current market price reflects a market assumption that the Transaction will be completed;
- we may experience negative reactions to the termination of the Transaction from customers, business partners, lenders and employees; and
- we would not realize any of the anticipated benefits of having completed the Transaction.

Furthermore, any delay in the completion of the Transaction, or any uncertainty about its completion, could have a material adverse effect on our business, financial condition, results of operations and cash flows.

While the Transaction is pending, we will be subject to contractual limitations that could adversely affect our business.

The Merger Agreement restricts us from taking certain specified actions while the Transaction is pending. These restrictions may prevent us from pursuing otherwise attractive business opportunities and making other changes to our business prior to closing of the Transaction or termination of the Merger Agreement.

Our right to recover for certain breaches of the covenants, agreements, representations and warranties made by Genesis in the Merger Agreement are limited.

Subject to the terms, conditions and limitations set forth in the Merger Agreement, the shareholders of Genesis will indemnify us against any losses that are suffered or incurred by us resulting from or arising out of a breach of Genesis' "fundamental" representations and certain other matters contained in the Merger Agreement. However, other than instances of fraud, breaches of such fundamental representations and the other matters referred to in the Merger Agreement, the Genesis stockholders will not be liable for any other losses suffered by us. If we incur any material losses for which the Genesis stockholders will not provide indemnification, or if our losses are in excess of such stockholders' maximum aggregate liability, our financial condition could be materially and adversely affected.

The Transaction may result in a loss of customers and strategic alliances.

As a result of the Transaction, some of our customers or strategic partners or those of Genoptix may terminate their respective business relationships with us following the Transaction. In addition, potential customers or strategic partners may delay entering into, or decide not to enter into, a business relationship with us because of the Transaction. If customers or strategic alliances are adversely affected by the Transaction, our business and financial

performance following the Transaction would suffer.

Uncertainties associated with the Transaction may cause a loss of management personnel and other key employees which could adversely affect our future business and operations following the Transaction.

NeoGenomics and Genoptix are dependent on the experience and industry knowledge of our respective officers, contracted pathologists and other key employees to execute our business plans. Our success after the Transaction will depend in part upon our ability to retain key management personnel and other key employees, including contracted ones. NeoGenomics' and Genoptix's current and prospective employees may experience uncertainty about their roles within NeoGenomics or other concerns regarding our operations following the Transaction, any of which may have an adverse effect on our ability to attract or retain key management and other key personnel. Accordingly, no assurance can be given that we will be able to attract or retain key management personnel and other key employees until the Transaction is completed or following the Transaction to the same extent that we have previously been able to attract or retain such employees.

The Transaction is subject to a number of conditions, including the absence of certain legal or regulatory actions and the expiration or termination of any waiting or notice period under applicable antitrust laws. Any imposition of conditions to completion of the Transaction by a legal or regulatory authority could impair our ability to complete the Transaction on a timely basis, result in abandonment of the Transaction or otherwise have a material adverse effect on us.

Completion of the Transaction is conditioned upon, among other matters, the absence of certain legal or regulatory actions and the receipt of certain governmental authorizations, consents, orders, clearances or other approvals. Notwithstanding termination of the waiting period under the Hart-Scott-Rodino Act, at any time before the closing of the Transaction, the U.S. Department of Justice, the U.S. Federal Trade Commission or others could take action under the antitrust laws with respect to the Transaction, including seeking to enjoin the completion of the Transaction or to require the divestiture of certain of our assets or those of Genoptix. There can be no assurance that a challenge to the Transaction on antitrust grounds will not be made or, if such a challenge is made, that it would not be successful. Any imposition of conditions to completion of the Transaction by a legal or regulatory authority could impair our ability to complete the Transaction on a timely basis, result in abandonment of the Transaction or otherwise have a material adverse effect on us. In addition, if we were to proceed with the Transaction despite the imposition of regulatory conditions or restrictions, our business, financial condition, results of operations, cash flows and the price of our common stock following completion of the Transaction could be adversely affected.

The anticipated benefits of the Transaction may not be realized, which may adversely affect the value of our common stock.

To be successful after the Transaction, we will need to combine and integrate our operations with those of Genoptix. Integration will require substantial management attention and could detract attention from the day-to-day business of the combined company. We could encounter difficulties in the integration process, such as difficulties offering products and services across our expanded portfolio, the need to revisit assumptions about reserves, revenues, capital expenditures and operating costs, including synergies, the loss of key employees or customers or the need to address unanticipated liabilities. In addition, we cannot be assured that all of the goals and anticipated benefits of the Transaction will be achievable, particularly as the achievement of the benefits are in many important respects subject to factors that we do not control. These factors would include such things as the reactions of third parties with whom we enter into contracts and do business and the reactions of investors and analysts.

If we cannot integrate our business and that of Genoptix successfully, we may fail to realize the expected benefits of the Transaction. We could also encounter additional transaction and integration costs, may fail to realize all of the benefits anticipated in the Transaction or be subject to other factors that affect preliminary estimates. Any of these factors could cause a decrease in our cash earnings per share or decrease and contribute to a decrease in the price of our common stock.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None

ITEM 3. DEFAULTS UPON SENIOR SECURITIES
Not applicable

ITEM 4. MINE SAFETY DISCLOSURES
Not applicable

ITEM 5. OTHER INFORMATION
None

NEOGENOMICS, INC.

ITEM 6. EXHIBITS

EXHIBIT NO.	DESCRIPTION
2.1	Agreement and Plan of Merger, dated October 23, 2018 by and among Genesis Acquisition Holdings Corp., NeoGenomics Laboratories, Inc., Genoptix Merger Sub, Inc. and Ampersand 2014 Limited Partnership, solely in its capacity as representative of the stockholders of the Company (as incorporated by reference to the Company's current report on Form 8-K as filed with the SEC on October 26, 2018)
31.1	Certification by Principal Executive Officer pursuant to Rule 13a-14(a)/ 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification by Principal Financial Officer pursuant to Rule 13a-14(a)/ 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification by Principal Executive Officer and Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101	The following materials from the Company’s Quarterly Report on Form 10-Q for the quarter ended September 30, 2018 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, (iv) the Consolidated Statements of Comprehensive Income (Loss) and (v) related notes

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 6, 2018 NEOGENOMICS, INC.

By: /s/ Douglas M. VanOort
Name: Douglas M. VanOort
Title: Chief Executive Officer

By: /s/ Sharon A. Virag
Name: Sharon A. Virag
Title: Chief Financial Officer