UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 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	☐ (Do not check if a smaller reporting company)	Smaller Reporting Company	☐
		Emerging Growth Company	☐

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

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

As of May 4, 2018, the registrant had 80,617,016 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 expressions are intended to identify forward-looking statements, although not all forward-looking statements contain these identifying words. We may not actually achieve the plans, intentions or expectations disclosed in our forward-looking statements and you should not place undue reliance on our forward-looking statements. These forward-looking statements involve known and unknown risks and uncertainties that could cause our actual results, performance or achievements to differ materially from those expressed or implied by the forward-looking statements, including, without limitation, the risks set forth under "Risk Factors" and in Part I, Item 1A, "Risk Factors" contained in our Annual Report on Form 10-K as filed with the SEC on March 13, 2018.

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

- Our ability to implement our business strategy;
- The expected reimbursement levels from governmental payers and private insurers and proposed changes to those levels;
- The application, to our business and the services we provide, of existing laws, rules and regulations, including without limitation, Medicare laws, anti-kickback laws, Health Insurance Portability and Accountability Act of 1996 regulations, state medical privacy laws, federal and state false claims laws and corporate practice of medicine laws;
- Regulatory developments in the United States including downward pressure on health care reimbursement;
- Our ability to maintain our license under the Clinical Laboratory Improvement Amendments of 1988 ("CLIA");
- Food and Drug Administration regulation of Laboratory Developed Tests ("LDTs");
- Failure to timely or accurately bill for our services;
- Our ability to expand our operations and increase our market share;
- Our ability to expand our service offerings by adding new testing capabilities;
- Our ability to meet our future capital requirements;
- Our ability to integrate future acquisitions and costs related to such acquisitions;
- The impact of internalization of testing by customers;
- Our ability to maintain service levels and compete with other diagnostic laboratories;
- Our ability to hire and retain sufficient managerial, sales, clinical and other personnel to meet our needs;
- Our ability to successfully scale our business, including expanding our facilities, our backup systems and infrastructure;
- The accuracy of our estimates regarding reimbursement, expenses, future revenues and capital requirements.

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

PART I — FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

NEOGENOMICS, INC.
CONSOLIDATED BALANCE SHEETS
(in thousands, except share and per share amounts)
(unaudited)

ASSETS	March 31, 2018	December 31, 2017 (as adjusted)
Current assets		
Cash and cash equivalents	$ 15,173	$ 12,821
Accounts receivable	58,129	60,427
Inventories	7,515	7,474
Other current assets	6,954	5,153
Total current assets	87,771	85,875
Property and equipment (net of accumulated depreciation of $44,024 and $40,530, respectively.	40,411	36,504
Intangible assets, net	72,751	74,165
Goodwill	147,019	147,019
Other assets	1,320	891
Total assets	$ 349,272	$ 344,454
LIABILITIES, REDEEMABLE CONVERTIBLE PREFERRED STOCK AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	$ 13,048	$ 10,450
Accrued compensation	10,164	9,482
Accrued expenses and other liabilities	9,884	7,550
Short-term portion of capital leases and car loans	5,988	5,239
Short-term portion of loans	4,219	3,750
Total current liabilities	43,303	36,471
Long-term liabilities		
Long-term portion of capital leases and car loans	6,515	5,303
Long-term portion of loans, net	65,208	66,616
Revolving credit facility, net	19,114	24,516
Long-term pharma contract liability	522	283
Deferred income tax liability, net	6,594	6,688
Total long-term liabilities	97,953	103,406
Total liabilities	141,256	139,877
Commitments and contingencies - see Note J		
Redeemable convertible preferred stock		
Series A Redeemable Convertible Preferred Stock, $0.001 par value, (50,000,000 shares authorized; 6,864,000 shares issued and outstanding)	35,471	32,615
Stockholders' equity		
Common stock, $0.001 par value, (250,000,000 shares authorized; 80,568,453 and 80,462,574 shares issued and outstanding, respectively)	81	80
Additional paid-in capital	232,039	230,030
Accumulated other comprehensive income	499	274
Accumulated deficit	(60,074)	(58,422)
Total stockholders' equity	172,545	171,962
Total liabilities, redeemable convertible preferred stock and stockholders' equity	$ 349,272	$ 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 March 31,	
	2018	**2017 (as adjusted)**
NET REVENUE		
Clinical testing	$ 56,971	$ 52,907
Pharma Services	6,452	4,521
Total Revenue	63,423	57,428
COST OF REVENUE	36,120	34,480
GROSS PROFIT	27,303	22,948
Operating expenses:		
General and administrative	17,067	17,018
Research and development	956	862
Sales and marketing	6,775	5,648
Total operating expenses	24,798	23,528
INCOME (LOSS) FROM OPERATIONS	2,505	(580)
Interest expense, net	1,486	1,364
Other income	(63)	—
Income (loss) before taxes	1,082	(1,944)
Income tax (benefit) expense	438	(779)
NET INCOME (LOSS)	644	(1,165)
Deemed dividends on preferred stock	1,003	894
Amortization of preferred stock beneficial conversion feature	1,853	1,672
NET LOSS ATTRIBUTABLE TO COMMON STOCKHOLDERS	$ (2,212)	$ (3,731)
NET LOSS PER SHARE ATTRIBUTABLE TO COMMON STOCKHOLDERS		
Basic	$ (0.03)	$ (0.05)
Diluted	$ (0.03)	$ (0.05)
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:		
Basic	80,507	78,650
Diluted	80,507	78,650

See notes to unaudited consolidated financial statements.

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

	For the Three Months Ended March 31,	
	2018	2017 (as adjusted)
NET INCOME/LOSS	$ 644	$ (1,165)
OTHER COMPREHENSIVE INCOME, NET OF TAX:		
Foreign currency translation adjustments	(124)	—
Gain on effective cash flow hedge	623	—
Total other comprehensive income, net of tax	499	—
COMPREHENSIVE INCOME (LOSS)	$ 1,143	$ (1,165)

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

	For the Three Months Ended March 31,	
CASH FLOWS FROM OPERATING ACTIVITIES	**2018**	**2017 (as adjusted)**
Net income (loss)	$ 644	$ (1,165)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation	3,633	3,979
Amortization of intangibles	1,413	1,725
Amortization of debt issue costs	113	110
Gain on sale of assets	(7)	—
Non-cash stock based compensation	1,624	1,130
Changes in assets and liabilities, net:		
(Increase) decrease in accounts receivable, net of write-offs	2,299	(5,741)
(Increase) decrease in inventories	(41)	283
(Increase) in prepaid expenses	(1,990)	(1,321)
(Increase) decrease in other current assets	(158)	6
Increase (decrease) in accounts payable, accrued and other liabilities	6,782	(692)
Net cash provided by (used in) operating activities	14,312	(1,686)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(4,666)	(3,007)
Net cash used in investing activities	(4,666)	(3,007)
CASH FLOWS FROM FINANCING ACTIVITIES		
Advances from revolving credit facility, net	—	5,006
Repayment of capital lease obligations, loans	(1,394)	(1,263)
Repayment of term loan and revolving credit facility, net	(6,338)	(932)
Issuance of common stock	483	505
Payments of equity issue costs	—	(112)
Net cash (used in) provided by financing activities	(7,249)	3,204
Effects of foreign exchange rate changes on cash and cash equivalents	(45)	—
Net change in cash and cash equivalents	2,352	(1,489)
Cash and cash equivalents, beginning of period	12,821	12,525
Cash and cash equivalents, end of period	$ 15,173	$ 11,036
Supplemental disclosure of cash flow information:		
Interest paid	$ 1,396	$ 1,257
Income taxes paid	$ 7	$ 5
Supplemental disclosure of non-cash investing and financing information:		
Equipment acquired under capital lease/loan obligations	$ 3,355	$ 1,898

See notes to unaudited consolidated financial statements.

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"), NeoGenomics Bioinformatics, Inc. and NeoGenomics Europe, SA (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 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 ended March 31, 2018 and December 31, 2017. For further financial information about these segments see Note K.

Note B – Recently Adopted and Issued Accounting Guidance

Adopted

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 Testing 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 Testing 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
Accrued expenses and other liabilities	$ 6,144	$ 1,406	$ 7,550
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

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 March 31, 2017		
	As Reported	Impact of Adoption	As Adjusted
Net Revenue			
Clinical Testing	$ 56,690	$ (3,783)	$ 52,907
Pharma Services	4,986	(465)	4,521
Total Revenue	$ 61,676	$ (4,248)	$ 57,428
Gross Profit	$ 27,196	$ (4,248)	$ 22,948
Total operating expenses	$ 27,311	$ (3,783)	$ 23,528
Loss from Operations	(115)	(465)	(580)
Interest expense	1,364	—	1,364
Income tax (benefit) expense	(825)	46	(779)
Net Loss	$ (654)	$ (511)	(1,165)

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 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. This update is effective for annual periods beginning after December 15, 2018 and interim periods within those annual periods. Early adoption is permitted. The Company does not expect the adoption of ASU 2017-12 to have a material effect on its consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, Leases. The update 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. ASU 2016-02 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. The adoption of this ASU will result in an increase on the balance sheet for lease liabilities and right to use assets. The Company is currently evaluating the quantitative impact that adopting ASU 2016-02 will have on its consolidated financial statements and assessing any changes to its processes and controls.

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 supporting various 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 Division generally enters into contracts with pharmaceutical and biotech customers as well as other 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.

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

	March 31, 2018	December 31, 2017
Current pharma contract asset	$ 821	$ 541
Long-term pharma contract asset	140	31
Total pharma contract asset	$ 961	$ 572
Current pharma capitalized commissions	$ 436	$ 371
Long-term pharma capitalized commissions	213	171
Total pharma capitalized commissions	$ 649	$ 542
Current pharma contract liability	$ 2,193	$ 1,406
Long-term pharma contract liability	522	283
Total pharma contract liability	$ 2,715	$ 1,689

There were no significant changes to the contract assets and capitalized commissions for the three months ended March 31, 2018 and related amortization for the periods presented was not significant. Pharma contract liabilities increased $1.0 million from December 31, 2017, or 61%, primarily due to an increase in volume of Pharma contracts in process. Revenue recognized for the three months ended March 31, 2018 and March 31, 2017 related to pharma contract liability balances outstanding at the beginning of the period were $0.9 million and $0.3 million, respectively.

The amount of existing performance obligations under long-term contracts as defined by ASC 606, which were unsatisfied as of March 31, 2018, was $51.1 million. We expect to recognize approximately 45% 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 homogenous 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. 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 March 31,	
	2018	2017
Clinical Services:		
Client direct billing	$ 38,530	$ 33,630
Commercial Insurance	10,326	11,436
Medicare and Medicaid	8,084	7,818
Self-Pay	31	22
Total Clinical Services	$ 56,971	$ 52,906
Pharma Services:	6,452	4,521
Total Revenue	$ 63,423	$ 57,427

Note D – Goodwill and Intangible Assets

Goodwill as of March 31, 2018 and December 31, 2017 was $147.0 million. There were no changes in the carrying amount of goodwill during these periods.

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

		March 31, 2018		
	Amortization Period	Cost	Accumulated Amortization	Net
Customer Relationships	156 - 180 months	$ 85,068	$ 12,336	$ 72,732
Non-Compete Agreement	36 months	26	7	19
Total		$ 85,094	$ 12,343	$ 72,751

		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 March 31, 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 March 31, 2018 is as follows (in thousands):

Remainder of 2018	$	4,271
2019		5,680
2020		5,671
2021		5,671
2022		5,671
Thereafter		45,787
Total	$	72,751

Note E – Debt

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

	March 31, 2018	December 31, 2017
Term Loan Facility	$ 70,312	$ 71,250
Revolving Credit Facility	20,000	25,400
Capital leases and car loans	12,504	10,542
Total Debt	$ 102,816	$ 107,192
Less: Debt issuance costs	(1,772)	(1,768)
Less: Current portion of long-term debt	(10,207)	(8,989)
Total Long-Term Debt, net	$ 90,837	$ 96,435

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"). The Credit Agreement also provides incremental facility capacity of $50 million, subject to certain conditions. On March 31, 2018 and December 31, 2017, the Company had current outstanding borrowings under the Term Loan of approximately $4.2 million and $3.8 million and long-term outstanding borrowings of approximately $65.2 million and $66.6 million, net of unamortized debt issuance costs of $0.9 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 3.50% for LIBOR loans and 1.25% to 2.50% for base rate loans, in each case based on NeoGenomics Laboratories' consolidated leverage ratio (as defined in the Credit Agreement). Interest on borrowings under the Revolving Credit Facility 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 an interest rate swap agreement to hedge against changes in the variable rate of a portion of this debt. See Note F-Derivative Instruments and Hedging Activities for more information on this instrument.

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 ending March 31, 2017. The Company was in compliance with all required covenants as of March 31, 2018.

The Term Loan Facility has a maturity date of December 21, 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, 2017, 50% of excess cash flow (as defined), subject to a step down to 0% of excess cash flow if NeoGenomics Laboratories' consolidated leverage ratio is no greater than 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.

Capital Leases

The Company has entered into capital leases to purchase laboratory and office equipment. These leases expire at various dates through 2021 and the weighted average interest rate under such leases was approximately 4.85% at March 31, 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.

Revolving Credit Facility

O n 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"). On March 31, 2018, and December 31, 2017, the Company had outstanding borrowings of approximately $19.1 million and $24.5 million, net of unamortized debt issuance costs of $0.9 million and $0.9 million, respectively.

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 21, 2021 or such earlier date as the obligations under the Credit Agreement become due and payable pursuant to the terms of the Credit 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 3.50% for Adjusted LIBOR loans and 1.25% to 2.50% 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 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, 2017, 50% of excess cash flow (minus certain specified other payments), subject to a step down to 0% of excess cash flow if NeoGenomics Laboratories' consolidated leverage ratio is no greater than 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.

Maturities of Long-Term Debt

Maturities of long-term debt at March 31, 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	$ 2,813	$ 4,984	$ 7,797
2019	5,625	5,206	10,831
2020	5,625	2,722	8,347
2021	76,250	300	76,550
	90,313	13,212	103,525
Less: Interest on capital leases	—	(709)	(709)
	90,313	12,503	102,816
Less: Current portion of long-term debt	(4,219)	(5,988)	(10,207)
Less: Debt issuance costs	(1,772)	—	(1,772)
Long-term debt, net	$ 84,322	$ 6,515	$ 90,837

Note F – Derivative Instruments and Hedging Activities

In December of 2016, the Company entered into an interest rate swap agreement to reduce our exposure to interest rate fluctuations on our variable rate debt obligations. This derivative financial instrument is accounted for at fair value as a cash flow hedge 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, see Note B for more information on our accounting policy related to derivative instruments and hedging activities.

Under this agreement, we receive a variable rate of interest based on LIBOR, and we pay a fixed rate of interest at 1.59%. The interest rate swap agreement was effective as of December 30, 2016 and a termination date of December 31, 2019. As of March 31, 2018 and December 31, 2017, the total notional amount of the Company's interest rate swap was $50 million.

The fair value of the interest rate swap will be included in other long term assets or liabilities, when applicable. As of March 31, 2018 and December 31, 2017, the fair value of the derivative financial instrument was $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 to be included in operating activities on the consolidated statement of cash flows. As the specific terms and notional amounts of the derivative financial instrument match those of the fixed-rate debt being hedged, the derivative instrument is assumed to be a perfectly effective hedge and accordingly, there is no impact to the Company's consolidated statements of operations. As of March 31, 2018, the Company estimates that it will reclassify gains or losses on derivative instruments of $0.1 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 has 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 March 31, 2018.

The carrying amount of the Series A Preferred Stock at March 31, 2018 was $35.5 million as compared to the carrying amount at December 31, 2017 of $32.6 million. The increase in the carrying amount is due to the accrual of deemed dividends of approximately

$0.8 million, the accretion of the beneficial conversion feature of approximately $1.9 million during the three months ending March 31, 2018 and the additional BCF discounts for payment-in-kind shares accrued during the three months ending March 31, 2018 of $0.2 million. Both the deemed dividends and the accretion of the beneficial conversion feature are recorded as distributions to the holders of the Series A Preferred Stock on the income statement with the corresponding entry recorded as an increase to the carrying value of the Series A Preferred Stock.

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 as a result of assessing the impact the rights and features of the instrument and their effect on the value to the Company. After the partial redemption, the Series A Preferred stock has 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 represents a discount of approximately $16.6 million.

Beneficial Conversion Features

The fair value of the common stock into which the Series A Preferred Stock is convertible exceeded the allocated purchase price fair value of the Series A Preferred Stock at the date of issuance and after redemption by approximately $44.7 and $20.1 million, respectively, resulting in a beneficial conversion feature. The Company will recognize the beneficial conversion feature as non-cash, deemed dividend to the holder of Series A Preferred Stock over the first three years the Series A Preferred Stock is outstanding, as the date the stock first becomes convertible is three years from the issue date. The amount recognized for the three months ended March 31, 2018 was approximately $1.9 million.

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. After the early redemption, the face value of the remaining Series A Preferred Stock is $49.5 million. We will issue 274,560 additional shares of Series A Preferred Stock as payment-in-kind dividends for the year ending December 31, 2018. The additional 274,560 shares will be discounted and amortized to the income statement over the remaining period up to the earliest conversion date, which is three years from the original issue date. The additional BCF discount recorded for the three months ended March 31, 2018 was approximately $0.2 million.

Automatic Conversion

Each share of Series A Preferred Stock issued and outstanding as of the tenth anniversary of the original issue date will automatically convert into fully paid and non-assessable shares of common stock.

Classification

The Company classified the Series A 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

A summary of the stock option activity under the Company's plans for the three months ended March 31, 2018 is as follows:

	Number of shares	Weighted average exercise price
Options outstanding at December 31, 2017	6,342,526	$ 6.51
Options granted	1,720,500	$ 8.06
Less:		
Options exercised	72,500	$ 4.14
Options canceled or expired	12,500	$ 7.52
Options outstanding at March 31, 2018	7,978,026	$ 6.86
Exercisable at March 31, 2018	2,250,840	$ 5.63

Of the 7,978,026 outstanding options at March 31, 2018, 1,180,000 were variable accounted stock options issued to non-employees of the Company of which 445,833 options were vested and 734,167 options were unvested as of March 31, 2018.

The fair value of each stock option award granted during the three months ended March 31, 2018 was estimated as of the grant date using a trinomial lattice model with the following weighted average assumptions:

	Three Months Ended March 31, 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	$2.78

As of March 31, 2018, there was approximately $7.9 million of unrecognized share based compensation expense related to stock options that will be recognized over a weighted-average period of approximately 1.3 years. This includes approximately $0.9 million in unrecognized expense related to the 734,167 shares of unvested variable accounted for stock options subject to fair value adjustment at the end of each reporting period based on changes in the Company's stock price.

Stock based compensation expense recognized for stock options and restricted stock and included in the consolidated statements of operations was allocated as follows (in thousands):

	Three Months Ended March 31,	
	2018	2017
Research and development expense	$ 18	$ 43
General and administrative expense	1,606	1,087
Total stock based compensation expense	$ 1,624	$ 1,130

Stock based compensation recorded in research and development relates to unvested options granted to a non-employee.

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 have recorded stock based compensation expense related to the ESPP for the quarter ended March 31, 2018.

During the three months ended March 31, 2018 and 2017, employees purchased 36,922 and 24,363 shares, respectively under the ESPP. The expense recorded for these periods was $0.1 million and $0, respectively.

Note I – Commitments

During the three months ended March 31, 2018, the Company entered into leases of approximately $3.4 million primarily to fund the construction of our laboratory in Houston, Texas. We anticipate this project to be complete in May 2018. 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 5.6%. The Company accounted for these leases as capital leases.

Note J – Related Party Transaction

During each of the three month periods ended March 31, 2018 and 2017, Steven C. Jones was an officer, director and shareholder of the Company. In connection with his duties as Executive Vice President, Mr. Jones earned approximately $46,000 and $66,000 for the three months ended March 31, 2018 and 2017, respectively. In addition, as compensation for his services on the Board, Mr. Jones earned approximately $12,500 and $12,500 for consulting work performed the three months ended March 31, 2018 and 2017, respectively. Mr. Jones also received approximately $32,000 and $85,000 during the three months ended March 31, 2018 and 2017, respectively, as payment of his annual bonus compensation for the previous fiscal years.

Note K – Segment Information

The Company reports its activities in two operating segments; the Clinical Services Segment and the Pharma Services Segment. Our Clinical customers include community based pathology practices, clinician practices, hospitals and academic centers. Our Pharma customers include pharmaceutical companies to whom we provide testing and other services to support their studies and clinical trials.

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 month periods ended March 31, 2018 and 2017, respectively (in thousands).

	For the Three-Months Ended March 31,	
	2018	2017 (as adjusted)
Net revenues:		
Clinical Services	$ 56,971	$ 52,907
Pharma Services	6,452	4,521
Total Revenue	$ 63,423	$ 57,428
Cost of revenue:		
Clinical Services	$ 31,042	$ 30,700
Pharma Services	5,078	3,780
Total Cost of Revenue	$ 36,120	$ 34,480
Gross Profit:		
Clinical Services	$ 25,929	$ 22,207
Pharma Services	1,374	741
Total Gross Profit	$ 27,303	$ 22,948
Operating expenses:		
General and administrative	$ 17,067	$ 17,018
Research and development	956	862
Sales and marketing	6,775	5,648
Total operating expenses	24,798	23,528
Income (Loss) From Operations	2,505	(580)
Interest expense, net	1,486	1,364
Other income	(63)	—
Income (loss) before taxes	1,082	(1,944)
Income tax (benefit) expense	438	(779)
Net Income (Loss)	$ 644	$ (1,165)

END OF FINANCIAL STATEMENTS

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 March 31, 2018, the Company had laboratory locations in Ft. Myers and Tampa, Florida; 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").

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 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.

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.

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 will allow us to better serve our existing Pharma Services clients and obtain new business in the U.S. and across Europe. We are also opening a small laboratory in Atlanta, Georgia, which will focus primarily on flow cytometry cases. 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 March 31, 2018, we employed, or are contracted with, approximately 35 full-time M.D.s and Ph.Ds. The addition of Clarient's pathology team has added increased depth to our medical team, and has enhanced our ability to service a wider range of specialties.

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 and our flow cytometry laboratory uses 10-color flow cytometry analysis technology on a technical-only basis. NeoGenomics is continually testing new laboratory equipment in order to remain at the forefront of new developments in the testing field.

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.

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), and we have a separate sales team for our Pharma Services division. 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 seven facilities, including three large laboratory locations in Fort Myers, Florida, Aliso Viejo, California, and Houston Texas. We also have four smaller laboratory locations in Fresno, California, Nashville, Tennessee, Tampa, Florida and Rolle, Switzerland. We are currently constructing a new, expanded laboratory in Houston, Texas, which is a Pharma-first facility; this facility is anticipated to open in May of 2018.

In May of 2018, we are also opening a small laboratory facility in Atlanta, Georgia to offer rapid turnaround time testing to clients in that market. 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 predictive 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 tornados in certain regions, consequently reducing revenues and cash flows in any affected period. Therefore, comparison of the results of successive periods may not accurately reflect trends for future periods.

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.

Results of Operations for the Three Months Ended March 31, 2018 as Compared to the Three Months Ended March 31, 2017

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

	Three Months Ended March 31,	
	2018	2017 (as adjusted)
Net revenue	100.0 %	100.0 %
Cost of revenue	57.0 %	60.0 %
Gross Profit	43.0 %	40.0 %
Operating expenses:		
General and administrative	26.9 %	29.6 %
Research and development	1.5 %	1.5 %
Sales and marketing	10.7 %	9.8 %
Total operating expenses	39.1 %	41.0 %
Income (loss) from operations	3.9 %	(1.0)%
Interest expense, net	2.3 %	2.4 %
Other income	(0.1)%	— %
Income (loss) before income taxes	1.7 %	(3.4)%
Income tax expense (benefit)	0.7 %	(1.4)%
Net income (loss)	1.0 %	(2.0)%

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

	Three Months Ended March 31,			
	2018	2017 (as adjusted)	$ Change	% Change
Clinical testing	$ 56,971	$ 52,907	$ 4,064	8%
Pharma Services	6,452	4,521	1,931	43%
Total Revenue	$ 63,423	$ 57,428	$ 5,995	10%

Revenue

Clinical testing revenue increased for the three month period ending March 31, 2018 as compared to the same period in 2017. Testing volumes also increased in our clinical genetic testing business by approximately 14.9% for this same period. The increases in revenue and volume were due to strong balanced growth across modalities including growth of over 30% in molecular testing as well as double digit growth in both FISH and flow cytometry. In the first quarter of 2018, we have added several managed care and group purchasing contracts which have allowed us to continue to build our pipeline of new accounts.

Pharma Services revenue increased for the three month period ending March 31, 2018 as compared to the same period in 2017. In addition, our backlog of signed contracts has continued to grow from $38.2 million as of March 31, 2017 to $73.1 million as of March 31, 2018. We expect this backlog to result in higher revenues in future quarters. We also expect to see growth in our Pharma Services division due to our international expansion as well as the expansion of our Pharma facility in Houston, Texas.

The following table shows clinical genetic testing revenue, cost of revenue, requisitions received and tests performed for the three months ended March 31, 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:

	For the Three-Months Ended March 31,		
Clinical Genetic Operation:	**2018**	**2017 (as adjusted)**	**% Change**
Requisitions received (cases)	105,229	94,528	11.3 %
Number of tests performed	178,794	155,567	14.9 %
Average number of tests/requisition	1.70	1.65	3.0 %
Total clinical genetic testing revenue	$ 56,971	$ 51,329	11.0 %
Average revenue/requisition	$ 541	$ 543	(0.3)%
Average revenue/test	$ 319	$ 330	(3.4)%
Cost of revenue	$ 31,042	$ 28,915	7.4 %
Average cost/requisition	$ 295	$ 306	(3.6)%
Average cost/test	$ 174	$ 186	(6.6)%

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 our sales teams to identify opportunities for increasing revenues from existing clients and allows us to gain market share from competitors.

Average revenue per test decreased slightly for the three month period ended March 31, 2018 as compared to the corresponding period in 2017. This decrease is primarily due to changes in Medicare reimbursement and regulation.

Cost of Revenue and Gross Profit

The decreases to our average revenue per test were offset by our higher volumes and reductions in cost per test. We have been able to consistently reduce our cost per test, partially as a result of scale, as we have increased the volume on our existing platforms. In addition, we have driven down cost per test through efficiencies gained in our laboratories.

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 March 31,		
Consolidated	**2018**	**2017 (as adjusted)**	**$ Change**
Cost of revenue:			
Clinical Services	$ 31,042	$ 30,700	1.1%
Pharma Services	5,078	3,780	34.3%
Total Cost of Revenue	$ 36,120	$ 34,480	4.8%
Cost of revenue as a % of revenue	57.0%	60.0%	
Gross Profit:			
Clinical Services	$ 25,929	$ 22,207	16.8%
Pharma Services	1,374	741	85.4%
Total Gross Profit	$ 27,303	$ 22,948	19.0%
Gross Profit Margin	43.0%	40.0%	

Consolidated cost of revenue in dollars increased for the three months ended March 31, 2018 when compared to the same period in 2017 while cost of revenue as a percentage of revenue decreased slightly 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 months ended March 31, 2018, as compared to the same period in 2017. This increase was achieved despite the reduction in our revenue per test. We were able to increase gross profit margin due to our laboratories processing the increased test volumes more efficiently. We had only limited staffing increases in the laboratory to handle the increased volumes, and our laboratory teams have been extremely focused on reducing their cost per test across all departments.

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:

	Three Months Ended March 31,			
($ in thousands)	**2018**	**2017 (as adjusted)**	**$ Change**	**% Change**
General and administrative	$ 17,067	$ 17,018	$ 49	—%
As a % of revenue	26.9%	29.6%		

General and administrative expenses in dollars remained relatively constant but decreased as a percentage of revenue for the three months ended March 31, 2018 as compared to 2017. This is partially due to the elimination of general and administrative expenses related to PathLogic, which was sold in August of 2017. General and administrative expenses for the three months ended March 31, 2017 included approximately $0.5 million related to Path Logic.

Stock based compensation expenses increased approximately $0.5 million for the three months ended March 31, 2018 as compared to 2017, due to an increase in stock option grants as well as an increase in NeoGenomics stock price. Other expenses such as payroll and billing expenses increased slightly. These increases were offset by reductions in facility expenses, primarily due to the consolidation of our laboratories in early 2017.

We expect our general and administrative expenses to increase as we add personnel 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. A significant portion of our stock based compensation is for non-employee options which are subject to variable accounting, and our expenses will fluctuate based on the performance of our common stock. A rise in the price of our stock will increase our stock compensation expense, and a decline in our stock price will reduce this expense. However, we anticipate that general and administrative expenses as a percentage of consolidated revenue will drop over the coming years as we continue to grow.

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 March 31,			
($ in thousands)	**2018**	**2017**	**$ Change**	**% Change**
Research and development	$ 956	$ 862	$ 94	10.9%
As a % of revenue	1.5%	1.5%		

Research and development expense remained relatively constant for the three months ended March 31, 2018, as compared to the same period in 2017. The slight increase is attributable increases in depreciation expenses and supplies.

We expect our research and development expenses to fluctuate in future quarters because of increases or decreases in our stock price and the corresponding stock based compensation expense for non-employee stock options. Increases in our stock price result in additional expense and decreases in our stock price can result in recovery of previously recorded expense. We anticipate research and development expenditures will increase over time as we continue to 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 March 31,			
($ in thousands)	**2018**	**2017**	**$ Change**	**% Change**
Sales and marketing	$ 6,775	$ 5,648	$ 1,127	20.0%
As a % of revenue	10.7%	9.8%		

Sales and marketing expenses increased for the three months ended March 31, 2018 as compared to the same period 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. 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, but to remain stable as a percentage of our overall sales.

Interest Expense, net

Interest expense, net 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. Interest expense, net increased approximately 9% or $0.1 million for the three month period ending March 31, 2018 compared to the same period in 2017. The increase was due to changes in interest rates.

The following table provides consolidated net loss available to common stockholders for each period along with the computation of basic and diluted net loss per share for the three months ended March 31, 2018 and 2017:

	Three Months Ended March 31,	
(in thousands, except per share amounts)	**2018**	**2017 (Adjusted)**
Net loss available to common shareholders	$ (2,212)	$ (3,731)
Basic weighted average shares outstanding	80,507	78,650
Effect of potentially dilutive securities	—	—
Diluted weighted average shares outstanding	80,507	78,650
Basic net loss per share	$ (0.03)	$ (0.05)
Diluted net loss per share	$ (0.03)	$ (0.05)

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, NeoGenomics excludes 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, NeoGenomics excludes 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, NeoGenomics excludes 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. NeoGenomics excludes 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 NeoGenomics 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 and result in large positive or negative impacts to total operating expenses. 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. GAAP provides that variable stock based compensation treatment be applied for consultants but not for employees. 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. Irvine was the former NeoGenomics laboratory in Southern California and was eight miles from Clarient's much larger facility in Aliso Viejo. After investing in updating and redesigning the Aliso Viejo facility, we combined the two facilities in March of 2017. Equipment had to be moved and re-validated in the new location. There was also significant overtime and investment of resources to coordinate the move project. Our Irvine, California lease terminated on April 30, 2017 and we also incurred costs in cleaning out and restoring that facility to its original state. We are adjusting for these costs in Adjusted EBITDA as the move was the direct result of the Clarient acquisition and will not be an annually recurring item. 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 analyses that are 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 months ended March 31, 2018:

	For the Three Months Ended March 31,	
(in thousands)	**2018**	**2017 (as adjusted)**
Net income (loss) (GAAP)	$ 644	$ (1,165)
Adjustments to net income (loss):		
Interest expense, net	1,486	1,364
Income tax expense (benefit)	438	(779)
Amortization of intangibles	1,413	1,725
Depreciation	3,633	3,979
EBITDA	$ 7,614	$ 5,124
Further Adjustments to EBITDA:		
Facility moving expenses	—	351
Non-cash, stock-based compensation	1,624	1,130
Adjusted EBITDA (non-GAAP)	$ 9,238	$ 6,605

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.

Pharma Services

The Company negotiates billing schedules and payment terms on a contract-by-contract basis. 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 private debt.

The following table presents a summary of our consolidated cash flows for operating, investing and financing activities for the three months ended March 31, 2018 and 2017 as well as the period ended cash and cash equivalents and working capital (in thousands).

	Three Months Ended March 31,	
	2018	2017 (as adjusted)
Net cash provided by (used in):		
Operating activities	$ 14,312	$ (1,686)
Investing activities	(4,666)	(3,007)
Financing activities	(7,249)	3,204
Net change in cash and cash equivalents	2,352	(1,489)
Cash and cash equivalents, beginning of period	$ 12,821	$ 12,525
Cash and cash equivalents, end of period	$ 15,173	$ 11,036
Working Capital (1), end of period	$ 44,468	$ 49,404

(1) Defined as current assets less current liabilities.

Cash Flows from Operating Activities

During the three months ended March 31, 2018, cash flows from operating activities was $14.3 million, a $16.0 million increase compared to the same period in 2017. The increase was primarily due to an $8.5 million decrease in our accounts receivable as well as a $5.6 million increase in accrued expenses. Our receivables have decreased over this period due to reductions in our DSO as well as gains achieved as a result of enhancements made to our billing team and billing processes.

Cash Flows from Investing Activities

During the three months ended March 31, 2018, cash used in investing activities increased by approximately $1.7 million compared to the same period in 2017. Specifically, this increase was due to costs incurred for the construction of our laboratory in Houston, Texas which is planned to be completed in May of 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 three months ended March 31, 2018, cash flows from financing activities decreased by approximately $10.5 million compared to the same period in 2017. This change was due to the $5.4 million repayment made on our revolving credit facility during the first quarter of 2018 compared to the $5.0 million advance made on our revolving credit facility during the first quarter of 2017.

Cash flows from financing activities also include quarterly repayments on our Term Loan as well as cash received for the issuance of our common stock upon exercise of stock options as well as cash received to purchase shares of our common stock through the Employee Stock Purchase Plan. We will have quarterly term loan repayments of $0.9 million throughout 2018.

Credit Facility

During December of 2016, we entered into a new senior secured credit facility in order to reduce our exposure to interest rate fluctuations on this floating rate debt obligation, we also entered into an interest rate swap agreement. For more information on this hedging instrument, 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 $15.2 million in cash and cash equivalents as of March 31, 2018. In addition, we have a revolving credit facility which provides for up to $75 million in borrowing capacity of which at March 31, 2018, based on our level of adjusted EBITDA, approximately $21.6 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 operating commitments and interest payments for at least the next 12 months from the issuance of these financial statements.

Our Series A Preferred Stock has certain restrictions that will result in the Company having to dedicate fifty percent of the net proceeds from any future equity raise, to redeeming shares of the Series A Preferred Stock until such time as all of the shares of Series A Preferred Stock have been redeemed. In addition, our Credit Agreement contains certain provisions beginning with the Annual Compliance Certificate for the fiscal year ended December 31, 2017 (to be filed no later than March 31, 2018), that would require a portion of the excess cash flow (as defined) to be repaid to our lenders. The debt repayment would be required five business days after the filing of our Annual Compliance Certificate. As of March 31, 2018, there was no excess cash flow payment due.

Capital Expenditures

We currently forecast capital expenditures in order to execute on our business plan and keep up with the growth in our testing volumes, although 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 $18.0 million to $22.0 million. During the three months ended March 31, 2018, we purchased approximately $4.7 million of capital equipment, software and leasehold improvements and an additional $3.4 million was acquired through capital lease obligations. We have in the past 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 each of the three month periods ended March 31, 2018 and 2017, Steven C. Jones was an officer, director and shareholder of the Company. In connection with his duties as Executive Vice President, Mr. Jones earned approximately $46,000 and $66,000 for the three months ended March 31, 2018 and 2017, respectively. In addition, as compensation for his services on the Board, Mr. Jones earned approximately $12,500 and $12,500 for consulting work performed the three months ended March 31, 2018 and 2017, respectively. Mr. Jones also received approximately $32,000 and $85,000 during the three months ended March 31, 2018 and 2017, respectively, as payment of his annual bonus compensation for the previous fiscal years.

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.

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 March 31, 2018 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II — OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

From time to time the Company is engaged in legal proceedings in the ordinary course of business. We do not believe any current legal proceedings are material to our business. No material proceedings were terminated during the quarter ended March 31, 2018.

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.

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

ITEM 6. EXHIBITS

EXHIBIT NO.	DESCRIPTION
10.1	First Amendment to Credit Agreement by and among NeoGenomics Laboratories, Inc., NeoGenomics, Inc. and certain of its subsidiaries, the lenders party thereto and Regional Bank, as administrative agent (as incorporated by reference to the Company's Current Report on Form 8-K as filed with the SEC on March 23, 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 March 31, 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: May 8, 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

EXHIBIT 31.1

CERTIFICATIONS

I, Douglas M. VanOort, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of NeoGenomics, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)), and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

May 8, 2018

/s/ Douglas M. VanOort

Douglas M. VanOort
Chief Executive Officer

EXHIBIT 31.2

CERTIFICATIONS

I, Sharon Virag, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of NeoGenomics, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)), and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

May 8, 2018

/s/ Sharon A. Virag

Sharon A. Virag

Chief Financial Officer

EXHIBIT 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with this Quarterly Report of NeoGenomics, Inc. (the "Company") on Form 10-Q as filed with the Securities and Exchange Commission on the date hereof (the "Report"), each of the undersigned, in the capacities and on the dates indicated below, hereby certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to his knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 8, 2018

/s/ *Douglas M. VanOort*
Douglas M. VanOort
Chief Executive Officer

Date: May 8, 2018

/s/ Sharon A. Virag
Sharon A. Virag
Chief Financial Officer

The foregoing certification is being furnished solely to accompany the Report pursuant to 18 U.S.C. § 1350, and is not being filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and is not to be incorporated by reference into any filing of the Company, whether made before or after the date hereof, regardless of any general incorporation language in such filing. A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.