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

FORM 10-Q

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

For the quarterly period ended September 30, 2020

☐ **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)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol	Name of each exchange on which registered
Common stock ($0.001 par value)	NEO	The Nasdaq Stock Market LLC

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 every Interactive Data File required to be submitted 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 such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☒	Accelerated filer	☐
Non-accelerated filer	☐	Smaller Reporting Company	☐
		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 October 27, 2020, the registrant had 111,029,644 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, or the "Securities Act", and Section 21E of the Securities Exchange Act of 1934, as amended, or the "Exchange Act", 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, changing reimbursement levels from government payers and private insurers, 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 in Part I, Item 1A, "Risk Factors" in our Annual Report on Form 10-K as filed with the Securities and Exchange Commission (the "SEC") on February 28, 2020.

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

- Our ability to respond to rapid scientific change;
- The risk of liability in conducting clinical trials and the sufficiency of our insurance to cover such claims;
- 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, international 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, or FDA 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 manage our indebtedness;
- Our ability to manage the quality of our investment portfolio;
- Our expectations regarding the conversion of our outstanding 1.25% Convertible Senior Notes due May 2025 (the "Convertible Notes") in the aggregate principal amount of $201.3 million and our ability to make debt service payments under the Convertible Notes if such Convertible Notes are not converted;
- Our ability to protect our intellectual property from infringement;
- The anticipated impact to our business operations, customer demand and supply chain due to the recent global pandemic of a novel strain of the coronavirus ("COVID-19");
- Our ability to integrate future acquisitions and costs related to such acquisitions;
- The effects of seasonality on our business;
- 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;
- Our handling, storage and disposal of biological and hazardous materials;

- The accuracy of our estimates regarding reimbursement, expenses, future revenues and capital requirements;
- Our ability to manage expenses and risks associated with international operations, including anti-corruption and trade sanction laws and other regulations, and economic, political, legal and other operational risks associated with foreign jurisdictions;
- Our ability to have sufficient cash to pay our obligations under our 1.25% Convertible Senior Notes due May 2025; and
- The dilutive impact of the conversion of our 1.25% Convertible Senior Notes due May 2025.

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 amounts)

	September 30, 2020 (unaudited)	December 31, 2019
ASSETS		
Current assets		
Cash and cash equivalents	$ 233,233	$ 173,016
Marketable securities, at fair value	50,375	—
Accounts receivable, net	103,697	94,242
Inventories	20,643	14,405
Prepaid assets	10,459	6,327
Other current assets	3,968	2,748
Total current assets	422,375	290,738
Property and equipment (net of accumulated depreciation of $85,987 and $68,809, respectively)	85,449	64,188
Operating lease right-of-use assets	45,856	26,492
Intangible assets, net	123,353	126,640
Goodwill	210,833	198,601
Restricted cash, non-current	32,003	—
Prepaid lease asset	10,142	—
Investment in non-consolidated affiliate	25,600	—
Other assets	3,817	2,847
Total assets	$ 959,428	$ 709,506
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	$ 17,735	$ 19,568
Accrued compensation	26,083	21,365
Accrued expenses and other liabilities	8,677	7,548
Short-term portion of financing obligations	3,700	5,432
Short-term portion of operating leases	4,701	3,381
Short-term portion of term loan	—	5,000
Pharma contract liability	3,716	1,610
Total current liabilities	64,612	63,904
Long-term liabilities		
Convertible senior notes, net	166,440	—
Long-term portion of financing obligations	1,399	3,199
Long-term portion of operating leases	43,123	24,034
Long-term portion of term loan, net	—	91,829
Other long-term liabilities	3,937	3,566
Deferred income tax liability, net	13,554	15,566
Total long-term liabilities	228,453	138,194
Total liabilities	293,065	202,098
Stockholders' equity		
Common stock, $0.001 par value, (250,000,000 shares authorized; 111,010,418 and 104,781,236 shares issued and outstanding, respectively)	111	105
Additional paid-in capital	688,832	520,278
Accumulated other comprehensive loss	22	(1,618)
Accumulated deficit	(22,602)	(11,357)
Total stockholders' equity	666,363	507,408
Total liabilities and stockholders' equity	$ 959,428	$ 709,506

See the accompanying notes to the unaudited consolidated financial statements.

NEOGENOMICS, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share amounts)
(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	**2019**	**2020**	**2019**
NET REVENUE:				
Clinical Services	$ 108,733	$ 92,565	$ 275,599	$ 267,757
Pharma Services	16,711	12,107	42,852	34,205
Total revenue	125,444	104,672	318,451	301,962
COST OF REVENUE	71,379	53,840	190,011	155,049
GROSS PROFIT	54,065	50,832	128,440	146,913
Operating expenses:				
General and administrative	36,128	33,054	107,085	94,773
Research and development	1,964	2,611	6,129	6,407
Sales and marketing	11,304	11,508	34,757	35,048
Total operating expenses	49,396	47,173	147,971	136,228
INCOME (LOSS) FROM OPERATIONS	4,669	3,659	(19,531)	10,685
Interest expense, net	2,458	203	4,825	3,333
Other (income) expense, net	(11)	(35)	(7,639)	5,124
Loss on extinguishment of debt	—	—	1,400	1,018
Loss on termination of cash flow hedge	—	—	3,506	—
Income (loss) before taxes	2,222	3,491	(21,623)	1,210
Income tax (benefit) expense	(335)	1,348	(10,378)	(500)
NET INCOME (LOSS)	$ 2,557	$ 2,143	$ (11,245)	$ 1,710
Adjustment to the numerator for convertible notes in diluted EPS[1]				
NET INCOME (LOSS)	$ 2,557	$ 2,143	$ (11,245)	$ 1,710
Convertible note accretion, amortization, and interest, net of tax	1,975	—	—	—
NET INCOME (LOSS) USED IN DILUTED EPS	$ 4,532	$ 2,143	$ (11,245)	$ 1,710
NET INCOME (LOSS) PER SHARE				
Basic	$ 0.02	$ 0.02	$ (0.10)	$ 0.02
Diluted	$ 0.04	$ 0.02	$ (0.10)	$ 0.02
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING				
Basic	110,461	103,899	107,605	99,149
Diluted	119,191	107,880	107,605	102,766

[1] This adjustment compensates for the effects of the if-converted impact of convertible notes in adjusted net income. Since an entity using the if-converted method assumes that a convertible debt instrument was converted into common shares at the beginning of the reporting period, the numerator is adjusted to reverse any recognized interest expense (including any amortization of discounts).

See the accompanying notes to the unaudited consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
NET INCOME (LOSS)	$ 2,557	$ 2,143	$ (11,245)	$ 1,710
OTHER COMPREHENSIVE (LOSS) INCOME:				
Unrealized loss on marketable securities, net	(21)	—	(21)	—
Loss on effective cash flow hedges	—	(217)	(1,000)	(1,801)
Cash flow hedge termination reclassified to earnings	—	—	2,661	—
Total other comprehensive (loss) income, net of tax	(21)	(217)	1,640	(1,801)
COMPREHENSIVE INCOME (LOSS)	$ 2,536	$ 1,926	$ (9,605)	$ (91)

See the accompanying notes to the unaudited consolidated financial statements.

NEOGENOMICS, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(unaudited, in thousands, except share amounts)

	Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total
	Shares	Amount				
Balance, December 31, 2019	104,781,236	$ 105	$ 520,278	$ (1,618)	$ (11,357)	$ 507,408
Common stock issuance ESPP Plan	34,330	—	796	—	—	796
Stock issuance fees and expenses	—	—	(15)	—	—	(15)
Loss on effective cash flow hedge	—	—	—	(1,038)	—	(1,038)
Issuance of restricted stock, net of forfeitures	76,618	—	(212)	—	—	(212)
Issuance of common stock for stock options	503,873	—	2,897	—	—	2,897
ESPP expense	—	—	194	—	—	194
Stock-based compensation expense - options and restricted stock	—	—	1,991	—	—	1,991
Net loss	—	—	—	—	(6,978)	(6,978)
Balance, March 31, 2020	105,396,057	$ 105	$ 525,929	$ (2,656)	$ (18,335)	$ 505,043
Common stock issuance ESPP Plan	41,058	—	928	—	—	928
Stock issuance fees and expenses	—	—	(209)	—	—	(209)
Gain on effective cash flow hedge	—	—	—	38	—	38
Cash flow hedge termination reclassified to earnings	—	—	—	2,661	—	2,661
Issuance of restricted stock, net of forfeitures	24,786	—	(824)	—	—	(824)
Issuance of common stock - public offering, net of underwriting discounts	4,751,500	5	127,288	—	—	127,293
Issuance of common stock for stock options	183,443	—	2,014	—	—	2,014
ESPP expense	—	—	211	—	—	211
Stock-based compensation expense - options and restricted stock	—	—	2,424	—	—	2,424
Equity component of convertible note issuance	—	—	30,912	—	—	30,912
Tax liability related to convertible note issuance	—	—	(9,330)	—	—	(9,330)
Convertible note debt issuance costs	—	—	(108)	—	—	(108)
Net loss	—	—	—	—	(6,824)	(6,824)
Balance, June 30, 2020	110,396,844	$ 110	$ 679,235	$ 43	$ (25,159)	$ 654,229
Common stock issuance ESPP Plan	29,853	—	808	—	—	808
Stock issuance fees and expenses	—	—	(29)	—	—	(29)
Unrealized loss on securities, net	—	—	—	(21)	—	(21)
Issuance of restricted stock, net of forfeitures	(1,124)	—	(237)	—	—	(237)
Issuance of common stock for stock options	584,845	1	4,845	—	—	4,846
ESPP expense	—	—	222	—	—	222
Stock-based compensation expense - options and restricted stock	—	—	2,494	—	—	2,494
Adjustment to tax liability related to convertible note issuance	—	—	1,524	—	—	1,524
Convertible note debt issuance costs	—	—	(30)	—	—	(30)
Net income	—	—	—	—	2,557	2,557
Balance, September 30, 2020	111,010,418	$ 111	$ 688,832	$ 22	$ (22,602)	$ 666,363

See the accompanying notes to the unaudited consolidated financial statements.

NEOGENOMICS, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(unaudited, in thousands, except share amounts)

	Common Stock		Additional Paid-In	Accumulated Other Comprehensive	Accumulated	
	Shares	Amount	Capital	Income (Loss)	Deficit	Total
Balance, December 31, 2018	94,465,440	$ 94	$ 340,291	$ (579)	$ (19,363)	$ 320,443
Common stock issuance ESPP Plan	36,032	—	419	—	—	419
Stock issuance fees and expenses	—	—	(66)	—	—	(66)
Loss on effective cash flow hedge	—	—	—	(557)	—	(557)
Issuance of restricted stock, net of forfeitures	182,502	—	—	—	—	—
Issuance of common stock for stock options	619,536	1	3,893	—	—	3,894
ESPP expense	—	—	119	—	—	119
Stock based compensation expense - options and restricted stock	—	—	2,020	—	—	2,020
Net loss	—	—	—	—	(2,424)	(2,424)
Balance, March 31, 2019	95,303,510	$ 95	$ 346,676	$ (1,136)	$ (21,787)	$ 323,848
Common stock issuance ESPP Plan	37,255	—	653	—	—	653
Stock issuance fees and expenses	—	—	(211)	—	—	(211)
Loss on effective cash flow hedge	—	—	—	(1,027)	—	(1,027)
Issuance of restricted stock, net of forfeitures	(633)	—	—	—	—	—
Working capital adjustment related to acquisition	(99,524)	—	(1,977)	—	—	(1,977)
Issuance of common stock - public offering	8,050,000	8	160,766	—	—	160,774
Issuance of common stock for stock options	543,604	1	3,369	—	—	3,370
ESPP expense	—	—	162	—	—	162
Stock based compensation expense - options and restricted stock	—	—	2,151	—	—	2,151
Net income	—	—	—	—	1,991	1,991
Balance, June 30, 2019	103,834,212	$ 104	$ 511,589	$ (2,163)	$ (19,796)	$ 489,734
Common stock issuance ESPP Plan	28,672	—	564	—	—	564
Stock issuance fees and expenses	—	—	23	—	—	23
Loss on effective cash flow hedge	—	—	—	(217)	—	(217)
Issuance of restricted stock, net of forfeitures	(6,070)	—	(688)	—	—	(688)
Issuance of common stock for stock options	289,081	—	2,173	—	—	2,173
ESPP expense	—	—	144	—	—	144
Stock based compensation expense - options and restricted stock	—	—	3,131	—	—	3,131
Net income	—	—	—	—	2,143	2,143
Balance, September 30, 2019	104,145,895	$ 104	$ 516,936	$ (2,380)	$ (17,653)	$ 497,007

See the accompanying notes to the unaudited consolidated financial statements.

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

	Nine Months Ended September 30,	
	2020	**2019**
CASH FLOWS FROM OPERATING ACTIVITIES		
Net (loss) income	$ (11,245)	$ 1,710
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	18,705	15,200
Loss on disposal of assets	371	451
Loss on debt extinguishment	1,400	1,018
Loss on termination of cash flow hedge	3,506	—
Amortization of intangibles	7,387	7,482
Amortization of debt issue costs	138	323
Amortization of convertible debt discount	2,705	—
Non-cash stock-based compensation	7,536	7,727
Non-cash operating lease expense	6,365	3,224
Changes in assets and liabilities, net		
Accounts receivable, net	(9,455)	(14,219)
Inventories	(5,704)	(3,982)
Prepaid and other assets	(4,189)	(1,013)
Prepaid lease asset	(10,142)	—
Other current assets	(2,568)	(381)
Accounts payable, accrued and other liabilities	(9,335)	2,470
Net cash (used in) provided by operating activities	(4,525)	20,010
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of marketable securities	(53,396)	—
Proceeds from sale of marketable securities	3,000	—
Purchases of property and equipment	(17,591)	(13,953)
Business acquisition	(37,000)	—
Investment in non-consolidated affiliate	(25,600)	—
Acquisition working capital adjustment	—	399
Net cash used in investing activities	(130,587)	(13,554)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of revolving credit facility	—	(5,000)
Repayment of equipment financing obligations	(4,331)	(5,481)
Proceeds from term loan	—	100,000
Repayment of term loan	(97,540)	(96,750)
Cash flow hedge termination	(3,317)	—
Payments of debt issuance costs	—	(1,051)
Issuance of common stock, net	10,761	10,132
Proceeds from issuance of convertible debt, net of issuance costs	194,466	—
Proceeds from equity offering, net of issuance costs	127,293	160,774
Net cash provided by financing activities	227,332	162,624
Net change in cash, cash equivalents and restricted cash	92,220	169,080
Cash, cash equivalents and restricted cash, beginning of period	173,016	9,811
Cash, cash equivalents and restricted cash, end of period	$ 265,236	$ 178,891

See the accompanying notes to the unaudited consolidated financial statements.

	Nine Months Ended September 30,	
	2020	2019
Reconciliation of cash, cash equivalents and restricted cash to the Consolidated Balance Sheets:		
Cash and cash equivalents	$ 233,233	$ 178,891
Restricted cash, non-current	32,003	—
Total cash, cash equivalents and restricted cash	$ 265,236	$ 178,891
Supplemental disclosure of cash flow information:		
Interest paid	$ 1,638	$ 4,295
Income taxes paid, net	$ 209	$ 316
Supplemental disclosure of non-cash investing and financing information:		
Working capital adjustment related to acquisition	$ —	$ 1,977
Equipment acquired under financing obligations	$ 428	$ 3,665
Property and equipment included in accounts payable	$ 3,521	$ 810

See the accompanying notes to the unaudited consolidated financial statements.

Note 1. Nature of the Business, Basis of Presentation and Significant Accounting Policies

Nature of the Business

NeoGenomics, Inc., a Nevada corporation, and its subsidiaries (the "Parent", "Company", or "NeoGenomics"), 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.

Basis of Presentation

The accompanying interim consolidated financial statements are unaudited and have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information. All intercompany transactions and balances have been eliminated in the accompanying consolidated financial statements.

Unaudited Interim Financial Information

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 and footnotes. 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, 2019.

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.

Principles of Consolidation

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 represents 100% of the Company's consolidated assets, net revenues and net income for each period presented. For further financial information about these segments see Note 15. Segment Information, in the accompanying notes to the consolidated financial statements.

The Company determines whether investments in affiliates are a Variable Interest Entity ("VIE") at the start of each new venture and when a reconsideration event has occurred. A reporting entity must consolidate a VIE if that reporting entity has a variable interest (or combination of variable interests) and is determined to be the primary beneficiary. The primary beneficiary has both the power to direct the activities of the VIE that most significantly impact the entity's economic performance and the obligation to absorb losses or the right to receive benefits from the VIE that could potentially be significant to the VIE.

The Company accounts for its equity investments that are under 20% of the total equity outstanding and for which the Company does not have significant influence by applying the cost method. Investments that are under 20% of the total equity outstanding and for which the entity does have significant influence are accounted for using the equity method unless a scope exception is applicable. Investments in which the Company holds a non-controlling interest and are between 20-50% equity are accounted for using the equity method. For any equity investments in which the Company holds over 50% of the outstanding stock, or for investments in which the Company controls the investee, the Company consolidates those entities into their consolidated financial statements.

Marketable Securities

The Company classifies all securities as available-for-sale, including those with maturity dates beyond 12 months, and therefore these securities are classified within current assets on the consolidated balance sheets as they are available to support current operational liquidity needs

Marketable securities are carried at fair value, with the unrealized holding gains and losses, net of income taxes, reflected in accumulated other comprehensive income until realized. We evaluate our marketable securities for other-than-temporary impairment on a quarterly basis. Unrealized losses are charged against net earnings when a decline in fair value is determined to be other-than-temporary. We review several factors to determine whether a loss is other-than-temporary, such as the length and extent of the fair value decline, the financial condition and near-term prospects of the issuer and whether we have the intent to sell or will more likely than not be required to sell before the securities' anticipated recovery. Regardless of our intent to sell a security, we perform additional analysis on all securities with unrealized losses to evaluate losses associated with the

creditworthiness of the security. Credit losses are identified where we do not expect to receive cash flows sufficient to recover the amortized cost basis of a security.

For the purposes of computing realized and unrealized gains and losses, cost and fair value are determined on a specific identification basis.

Income Taxes

We compute income taxes in accordance with FASB ASC Topic 740, Income Taxes, under which deferred taxes are recognized for the tax consequences of temporary differences by applying enacted statutory rates applicable to future years to differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities. During the quarter the Company performed an analysis of its historical research and development expenses and determined that federal and state research and development tax credits for the tax years 2016 – 2019 are available. The Company recorded a tax benefit of $1.9 million as a tax benefit in the reporting period for the expected realizable amount of such credits.

COVID-19 Pandemic

In December 2019, a novel strain of coronavirus ("COVID-19") was identified and the disease has since spread across the world, including the United States. In March 2020, the World Health Organization declared the outbreak of COVID-19 a pandemic. The outbreak of the pandemic is materially adversely affecting the Company's employees, patients, communities and business operations, as well as the United States ("U.S.") economy and financial markets. The full extent to which the COVID-19 outbreak will impact the Company's business, results of operations, financial condition and cash flows will depend on future developments that are highly uncertain and cannot be accurately predicted, including new information that may emerge concerning COVID-19 and the actions to contain it or treat its impact and the economic impact on local, regional, national and international markets. As the COVID-19 pandemic continues, the Company's results of operations, financial condition and cash flows are likely to continue to be materially adversely affected, particularly if the pandemic persists for a significant amount of time.

Coronavirus Aid, Relief, and Economic Security Act

The Federal government passed legislation and the President of the United States signed into law on March 27, 2020, known as the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act"). On April 10, 2020, the U.S Department of Health & Human Services ("HHS") announced that Medicare-enrolled providers would receive a portion of a direct deposit disbursement totaling $50 billion. The $50 billion is part of a $100 billion Public Health and Emergency Fund created by the CARES Act. Payments made under the CARES Act are intended to reimburse healthcare providers for health care related expenses or lost revenues attributable to COVID-19 and are not required to be repaid provided that recipients attest to and comply with certain terms and conditions, including limitations on balance billing for COVID-19 patients. In the absence of specific guidance to account for government grants under GAAP, the Company accounts for such grants in accordance with international accounting standards for government grants. Such amounts are recognized when there is reasonable assurance that the Company will (1) comply with the conditions associated with the grant and (2) receive the grant.

During the nine months ended September 30, 2020, the Company recognized $7.9 million in grant income related to the CARES Act. This amount was recorded during the second quarter of 2020. No such amounts were recorded in the third quarter of 2020. CARES Act grant income is classified in "Other (income) expense, net", on the Consolidated Statements of Operations. There was no grant income recognized for the three and nine month periods ended September 30, 2019.

The CARES Act also permits the deferral of payment of the employer portion of social security taxes between March 27, 2020 and December 31, 2020, with 50% of the deferred amount due on December 31, 2021 and the remaining 50% due on December 31, 2022. As of September 30, 2020, the accrued deferred social security taxes related to the CARES Act were $2.9 million. This amount was recorded in "Other long-term liabilities" on the Consolidated Balance Sheets. There were no such amounts recorded on the Consolidated Balance Sheets as of December 31, 2019.

Additionally, the CARES Act included an Employee Retention Tax Credit ("ERTC") provision designed to encourage employers to keep employees on their payroll. The ERTC is a refundable tax credit against certain payroll taxes paid by employers for eligible wages paid between March 13, 2020 and December 31, 2020 that meet the requirements of the ERTC provision. During the nine months ended September 30, 2020, the Company recognized $1.1 million under the ERTC. This amount was recorded during the third quarter of 2020.

Note 2. Recently Adopted and Issued Accounting Guidance

Recently Adopted Accounting Guidance

In August 2018, the FASB issued ASU No. 2018-15, *Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*, which changes the accounting for implementation costs incurred in a cloud computing arrangement that is a service contract. The update aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. The implementation costs should be presented accordingly as other assets, current and non-current on the balance sheet and expensed over the term of the hosting arrangement. The Company adopted this pronouncement on January 1, 2020 and the impact was not material to the Company's Consolidated Financial Statements.

In August 2018, the FASB issued ASU No. 2018-13, *Fair Value Measurement: Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement*, which adds and modifies certain disclosure requirements for fair value measurements. Under the new guidance, entities will no longer be required to disclose the amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy, or valuation processes for Level 3 fair value measurements. However, public companies are required to disclose the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements, and related changes in unrealized gains and losses included in other comprehensive income. The Company adopted this pronouncement on January 1, 2020 and the impact was not material to the Company's Consolidated Financial Statements.

In November 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows ("Topic 230"): Restricted Cash*. The new guidance requires that the reconciliation of the beginning-of-period and end-of-period amounts shown in the statement of cash flows include cash, cash equivalents and restricted cash. ASU 2016-08 was effective for fiscal years beginning after December 15, 2017, including interim periods within those periods, using a retrospective transition method to each period presented. As a result, restricted cash of approximately $32 million as of September 30, 2020 is included in cash and cash equivalents when reconciling the beginning and ending balances in the Consolidated Statements of Cash Flows. Please refer to Note 4. Leases, for additional information regarding the use of restricted cash. There were no restricted cash balances in any reportable period prior to January 2020.

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments – Credit Losses ("Topic 326")*: *Measurement of Credit Losses on Financial Instruments,* as modified by subsequently issued ASUs 2018-19 (issued November 2018), 2019-04 (issued April 2019), 2019-05 (issued May 2019), 2019-11 (issued November 2019), 2020-02 (issued February 2020) and 2020-03 (issued March 2020). Topic 326 modifies the measurement and recognition of credit losses for most financial assets and certain other instruments. The standard was effective January 1, 2020 and requires the use of forward-looking expected credit loss models based on historical experience, current economic conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount, which may result in earlier recognition of credit losses under the new standard. It also requires that credit losses related to available-for-sale debt securities be recorded as an allowance through net income rather than reducing the carrying amount under the current, other-than-temporary-impairment model. The standard required a modified retrospective approach with a cumulative effect adjustment to retained earnings. The Company adopted and applied the standard as of January 1, 2020. Based on management's analysis, Topic 326 is applicable to the Company's trade receivables as well as contract assets recognized within the Pharma Services segment. An assessment was performed on historical trends, current economic conditions, supportable forecasts, and customer and credit risks. The adoption of Topic 326 did not result in a material impact on the Company's Consolidated Financial Statements.

Accounting Pronouncements Pending Adoption

In August 2020, the FASB issued ASU No. 2020-06, *Debt - Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging - Contracts in Entity's Own Equity (Subtopic 815-40) - Accounting For Convertible Instruments and Contracts in an Entity's Own Equity*. ASU 2020-06 simplifies the accounting for convertible instruments by removing the separation models for (1) convertible debt with a cash conversion feature and (2) convertible instruments with a beneficial conversion feature. As a result, a convertible debt instrument will be accounted for as a single liability measured at its amortized cost. These changes will reduce reported interest expense and increase reported net income for entities that have issued a convertible instrument that was bifurcated according to previously existing rules. In addition, ASU 2020-06 requires the application of the if-converted method for calculating diluted earnings per share and the treasury stock method will be no longer available. The new guidance is effective for fiscal years beginning after December 15, 2021, with early adoption permitted no earlier than fiscal years beginning after December 15, 2020. The Company is currently evaluating when it will adopt this pronouncement and the impact that this new guidance will have on its Consolidated Financial Statements.

In March 2020, the FASB issued ASU No. 2020-04, *Reference Rate Reform ("Topic 848"): Facilitation of the Effects of Reference Rate Reform on Financial Reporting.* ASU 2020-04 provides for temporary optional expedients and exceptions to the current guidance on certain contract modifications and hedging relationships to ease the burdens related to the expected market

transition from the London Inter-bank Offered Rate ("LIBOR") or other reference rates to alternative reference rates. The guidance is effective upon issuance and can be applied through December 31, 2022. The Company does not expect the adoption of this standard to have a material impact on its Consolidated Financial Statements.

In January 2020, the FASB issued ASU No. 2020-01,*Investments-Equity Securities ("Topic 321"), Investments-Equity Method and Joint Ventures ("Topic 323") and Derivatives and Hedging ("Topic 815")* (ASU 2020-01). ASU 2020-01 clarifies the interaction of the accounting for equity securities under Topic 321, the accounting for the equity method investments in Topic 323 and the accounting for certain forward contracts and purchased options in Topic 815. ASU 2020-01 is effective for fiscal years beginning after December 15, 2020 on a prospective basis and early adoption is permitted. The Company is currently evaluating the impact of the provisions of this standard on its Consolidated Financial Statements.

In December 2019, the FASB issued ASU No. 2019-12,*Income Taxes: Simplifying the Accounting for Income Taxes ("Topic 740")*, which simplifies the accounting for income taxes, eliminates certain exceptions within Topic 740 and clarifies certain other aspects of the current guidance to promote consistency among reporting entities. The new standard is effective for fiscal years beginning after December 15, 2020 on a prospective basis and early adoption is permitted. The Company will adopt this pronouncement on January 1, 2021 and is currently evaluating the impact of the provisions of this standard on its Consolidated Financial Statements.

Note 3. Fair Value Measurements

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs. A fair value hierarchy has been established based on three levels of inputs, of which the first two are considered observable and the last unobservable.

Level 1: Quoted prices in active markets for identical assets or liabilities. These are typically obtained from real-time quotes for transactions in active exchange markets involving identical assets.

Level 2: Inputs, other than quoted prices included within Level 1, which are observable for the asset or liability, either directly or indirectly. These are typically obtained from readily-available pricing sources for comparable instruments.

Level 3: Unobservable inputs, where there is little or no market activity for the asset or liability. These inputs reflect the reporting entity's own assumptions of the data that market participants would use in pricing the asset or liability, based on the best information available in the circumstances.

Assets and Liabilities that are Measured at Fair Value on a Recurring Basis

The Company measures certain financial assets at fair value on a recurring basis, including its marketable securities and certain cash equivalents. The Company considers all securities available-for-sale, including those with maturity dates beyond 12 months, and therefore these securities are classified within current assets on the consolidated balance sheets as they are available to support current operational liquidity needs. The money market accounts are valued based on quoted market prices in active markets. The marketable securities are generally valued based on other observable inputs for those securities (including market corroborated pricing or other models that utilize observable inputs such as interest rates and yield curves) based on information provided by independent third-party pricing entities, except for U.S. Treasury securities which are valued based on quoted market prices in active markets.

The following table sets forth the amortized cost, gross unrealized gains, gross unrealized losses and fair values of the Company's marketable securities accounted for as available-for-sale securities as of September 30, 2020. There were no such amounts as of December 31, 2019.

	September 30, 2020			
(in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Financial Assets:				
U.S. Treasury securities	$ 18,412	$ 1	$ (7)	$ 18,406
Commercial paper	13,734	—	—	13,734
Asset-backed securities	9,927	1	(7)	9,921
Corporate bonds	8,323	2	(11)	8,314
Total	$ 50,396	$ 4	$ (25)	$ 50,375

The Company had $0.1 million of accrued interest receivable at September 30, 2020 included in other assets on its Consolidated Balance Sheets related to its marketable securities. There were no realized gains or losses on marketable securities for the three and nine months ended September 30, 2020 and 2019.

The following table sets forth the fair value of available-for-sale marketable securities by contractual maturity at September 30, 2020. There were no such amounts at December 31, 2019.

	September 30, 2020			
(in thousands)	One Year or Less	Over One Year Through Five Years	Over Five Years	Total
Financial Assets:				
Marketable Securities:				
U.S. Treasury securities	$ 3,033	$ 15,373	$ —	$ 18,406
Commercial paper	13,734	—	—	13,734
Asset-backed securities	—	9,921	—	9,921
Corporate bonds	2,657	5,657	—	8,314
Total	$ 19,424	$ 30,951	$ —	$ 50,375

The following table sets forth the Company's cash equivalents and marketable securities accounted for as available-for-sale securities that were measured at fair value on a recurring basis based on the fair value hierarchy as of September 30, 2020. As of December 31, 2019, the Company had only money market fund cash equivalents (Level 1) in the amount of $163.8 million.

	September 30, 2020			
(in thousands)	Level 1	Level 2	Level 3	Total
Financial Assets:				
Cash equivalents:				
Money market funds	$ 213,624	$ —	$ —	$ 213,624
Commercial paper	$ —	$ 4,749	$ —	$ 4,749
Marketable securities:				
U.S. Treasury securities	$ 18,406	$ —	$ —	$ 18,406
Commercial paper	$ —	$ 13,734	$ —	$ 13,734
Asset-backed securities	$ —	$ 9,921	$ —	$ 9,921
Corporate bonds	$ —	$ 8,314	$ —	$ 8,314
Total	$ 232,030	$ 36,718	$ —	$ 268,748

There were no transfers of financial assets or liabilities into or out of Level 1, Level 2, or Level 3 for the three and nine months ended September 30, 2020 and 2019.

Assets and Liabilities that are Measured at Fair Value on a Nonrecurring Basis

The carrying value of cash and cash equivalents, accounts receivable, net, accounts payable, accrued expenses and other liabilities, and other current assets and liabilities, including our prior revolving credit facility are considered reasonable estimates of their respective fair values at September 30, 2020 and December 31, 2019 due to their short-term nature.

We also measure certain non-financial assets at fair value on a nonrecurring basis, primarily intangible assets, goodwill, and long-lived assets in connection with periodic evaluations for potential impairment. We estimate the fair value of these assets using primarily unobservable inputs and, as such, these are considered Level 3 fair value measurements.

Note 4. Leases

The Company leases corporate offices and laboratory space throughout the world, all of which are classified as operating leases expiring at various dates and generally have terms ranging from 1 to 15 years. Leases with an initial term of 12 months or less are not recorded on the balance sheet.

Some of the Company's real estate lease agreements include options to either renew or early terminate the lease. Leases with renewal options allow the Company to extend the lease term typically between 1 and 5 years. When it is reasonably certain that the Company will exercise an option to renew or terminate a lease, these options are considered in determining the classification and measurement of the lease.

Lease liabilities are recorded based on the present value of the future lease payments over the lease term and assessed as of the commencement date. Incentives received from landlords, such as reimbursements for tenant improvements and rent abatement periods, effectively reduce the total lease payments owed for leases.

Certain real estate leases also include executory costs such as common area maintenance (non-lease component), as well as property insurance and property taxes (non-components). Lease payments, which may include lease components, non-lease components and non-components, are included in the measurement of the Company's lease liabilities to the extent that such payments are either fixed amounts or variable amounts based on a rate or index (fixed in substance) as stipulated in the lease contract. Any actual costs in excess of such amounts are expensed as incurred as variable lease cost.

The Company utilizes its incremental borrowing rate by lease term in order to calculate the present value of its future lease payments. The discount rate represents a risk-adjusted rate on a secured basis, and is the rate at which the Company would borrow funds to satisfy the scheduled lease liability payment streams commensurate with the lease term. The discount rate is determined using the incremental borrowing rate at lease commencement and based on the lease term.

Operating Leases

Operating lease costs include an immaterial amount of variable lease cost, and are recorded in cost of revenue and general and administrative expenses, depending on the nature of the leased asset. Aside from variable lease costs, operating lease costs represent fixed lease payments recognized on a straight-line basis over the lease term.

As of September 30, 2020, the maturities of our operating lease liabilities and a reconciliation to the present value of lease liabilities were as follows (in thousands):

	Remaining Lease Payments
Remainder of 2020	$ 1,129
2021	7,662
2022	5,414
2023	5,289
2024	5,349
Thereafter	37,570
Total remaining lease payments	62,413
Less: imputed interest	(14,589)
Total operating lease liabilities	47,824
Less: current portion	(4,701)
Long-term operating lease liabilities	$ 43,123
Weighted-average remaining lease term (in years)	12.0
Weighted-average discount rate	4.4 %

The following summarizes additional supplemental data related to our operating leases (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Operating lease costs	$ 1,747	$ 1,271	$ 6,024	$ 4,365

	Nine Months Ended September 30,	
	2020	2019
Right-of-use assets obtained in exchange for operating lease liabilities	$ 23,766	$ 19,341
Cash paid for operating leases	$ 5,101	$ 2,878

Lease contracts that have been executed but have not yet commenced are excluded from the tables above. As of September 30, 2020 the Company has entered into $34.6 million of contractually binding minimum lease payments for leases executed but not yet commenced. This amount primarily relates to the lease of the laboratory and headquarters facility in Fort Myers, Florida that is expected to commence in 2021. In addition to the minimum lease payments, the Company will pay approximately $25 million relating to the construction of the underlying assets and approximately $17 million in leasehold improvements. These amounts were placed into separate construction disbursement escrow accounts and are classified as "Restricted cash, non-current", on the Consolidated Balance Sheets. Disbursements to the landlord will take place from time to time to pay for the costs of the landlord's work. These disbursements will be classified as a prepaid lease asset or leasehold improvements, as appropriate, until the lease commences. Upon lease commencement, the prepaid lease asset will be included in the calculation of the right-of-use asset and the leasehold improvements will be placed in service. Construction of the infrastructure of this facility commenced in the first quarter of 2020. The Company is not expected to control the underlying assets during the construction period and therefore is not considered the owner of the underlying assets for accounting purposes.

Note 5. Revenue Recognition and Contractual Adjustments

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

Clinical Services Revenue

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

Pharma Services Revenue

The Company's Pharma Services segment generally enters into contracts with pharmaceutical customers as well as other Contract Research Organizations ("CROs") to provide research and clinical trial services ranging in duration from one month to several years. The Company records revenue on a unit-of-service basis based on number of units completed and the total expected contract value. The total expected contract value is estimated based on historical experience of total contracted units compared to realized units as well as known factors on a specific contract-by-contract basis. Certain contracts include upfront fees, final settlement amounts or billing milestones that may not align with the completion of performance obligations. The value of these upfront fees or final settlement amounts is usually recognized over time based on the number of units completed, which aligns with the progress of the Company towards fulfilling its obligations under the contract.

The Company also enters into other contracts, such as validation studies, for which the sole deliverable is a final report that is sent to sponsors at the completion of contracted activities. For these contracts, revenue is recognized at a point in time upon delivery of the final report to the sponsor. Any contracts that contain multiple performance obligations and include both units-of-service and point-in-time deliverables are accounted for as separate performance obligations and revenue is recognized as previously disclosed. The Company negotiates billing schedules and payment terms on a contract-by-contract basis. While the contract terms generally provide for payments based on a unit-of-service arrangement, the billing schedules, payment terms and related cash payments may not align with the performance of services and, as such, may not correspond to revenue recognized in any given period.

Amounts collected in advance of services being provided are deferred as contract liabilities on the Consolidated Balance Sheets. 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 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. 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 September 30, 2020 and December 31, 2019 (in thousands):

	September 30, 2020	December 31, 2019
Current pharma contract assets [1]	$ 1,533	$ 1,000
Long-term pharma contract assets [2]	271	153
Total pharma contract assets	$ 1,804	$ 1,153
Current pharma capitalized commissions [1]	$ 160	$ 133
Long-term pharma capitalized commissions [2]	809	798
Total pharma capitalized commissions	$ 969	$ 931
Current pharma contract liabilities	$ 3,716	$ 1,610
Long-term pharma contract liabilities [3]	657	1,171
Total pharma contract liabilities	$ 4,373	$ 2,781

[1] Current pharma contract assets and Current pharma capitalized commissions are classified as “Other current assets” on the Consolidated Balance Sheets.

[2] Long-term pharma contract assets and Long-term pharma capitalized commissions are classified as “Other assets” on the Consolidated Balance Sheets.

[3] Long-term pharma contract liabilities are classified as “Other long-term liabilities” on the Consolidated Balance Sheets.

Pharma contract assets increased $0.7 million, or 56%, from December 31, 2019 to September 30, 2020. Pharma contract liabilities increased $1.6 million, or 57%, during the same period, while there was a slight increase in capitalized commissions. Revenue recognized for the three and nine months ended September 30, 2020 related to Pharma contract liability balances outstanding at the beginning of the period was $0.5 million and $2.1 million, respectively. Amortization of capitalized commissions for both three and nine months ended September 30, 2020 was $0.3 million and $0.6 million, respectively.

Disaggregation of Revenue

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Clinical Services:				
Client direct billing	$ 72,896	$ 53,555	$ 172,431	$ 155,999
Commercial Insurance	19,218	20,956	56,360	63,052
Medicare and Medicaid	16,460	17,818	46,484	47,961
Self-Pay	159	236	324	745
Total Clinical Services	$ 108,733	$ 92,565	$ 275,599	$ 267,757
Pharma Services:	16,711	12,107	42,852	34,205
Total Revenue	$ 125,444	$ 104,672	$ 318,451	$ 301,962

Note 6. Acquisition

Human Longevity, Inc.

On January 10, 2020 (the "Acquisition Date"), the Company acquired the Oncology Division assets of Human Longevity, Inc. ("HLI - Oncology") for a purchase price of $37 million in cash. Acquisition and integration costs related to HLI - Oncology were approximately $0.4 million and $1.9 million for the three and nine months ended September 30, 2020, respectively, and are reported as general and administrative expenses in the Company's Consolidated Statements of Operations.

HLI - Oncology performs Next-Generation Sequencing for pharmaceutical customers. The acquisition of HLI - Oncology adds whole exome and whole genome sequencing capabilities to the Company's current Pharma Services offerings. Revenue related to HLI - Oncology is reported in the Pharma Services segment. The acquisition included assets, primarily consisting of lab equipment, inventory, maintenance agreements for acquired equipment, backlog contracts with HLI - Oncology's customers, as well as HLI - Oncology's molecular workforce that is experienced with Next-Generation Sequencing.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the Acquisition Date (in thousands):

	January 10, 2020
Inventory	$ 534
Prepaid assets	185
Property and equipment	16,839
Internally developed software	3,110
Customer relationships [1]	4,100
Long-term assets	346
Goodwill [2]	12,232
Total assets acquired	$ 37,346
Long-term liabilities	(346)
Net assets acquired	$ 37,000

[1] Acquired intangible assets consisted of customer relationships which are amortized overseven years.

[2] The goodwill arising from the acquisition of HLI - Oncology is the amount the Company paid in excess of the fair value of the net assets acquired and was primarily for (i) the expected future cash flows derived from the existing business capabilities and infrastructure, (ii) expanding the Company's scientific expertise as a leading provider of Pharma Services and Next-Generation Sequencing and (iii) an enhanced Pharma Services menu including germline, whole exome and whole genome sequencing. All of the goodwill resulting from the acquisition of HLI - Oncology is expected to be deductible for income tax purposes.

The above purchase price and purchase price allocation are preliminary and subject to future revision as the acquired assets and liabilities assumed are dependent upon the finalization of the related valuations. The fair values assigned to assets acquired and liabilities assumed for HLI - Oncology are based upon management's best estimates and assumptions as of the reporting date, and are considered preliminary.

Note 7. Goodwill and Intangible Assets

Goodwill as of September 30, 2020 and December 31, 2019 was $210.8 million and $198.6 million, respectively.

Intangible assets consisted of the following as of (in thousands):

		September 30, 2020		
	Amortization Period	Cost	Accumulated Amortization	Net
Customer Relationships	84-180 months	143,371	33,465	109,906
Trade Name - Indefinite-lived	—	13,447	—	13,447
Total		$ 156,818	$ 33,465	$ 123,353

		December 31, 2019		
	Amortization Period	Cost	Accumulated Amortization	Net
Trade Name	12-24 months	$ 3,679	$ 3,679	$ —
Non-Compete Agreement	24 months	27	27	—
Customer Relationships	180 months	139,271	26,078	113,193
Trade Name - Indefinite-lived	—	13,447	—	13,447
Total		$ 156,424	$ 29,784	$ 126,640

The Company recorded approximately $2.5 million and $2.4 million in straight-line amortization expense of intangible assets for the three months ended September 30, 2020 and 2019, respectively, and approximately $7.4 million and $7.5 million for the nine months ended September 30, 2020 and 2019, 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 four succeeding fiscal years and thereafter as of September 30, 2020 is as follows (in thousands):

Remainder of 2020	$ 2,468
2021	9,870
2022	9,870
2023	9,870
2024	9,870
Thereafter	67,958
Total	$ 109,906

Note 8. Debt

The following table summarizes the long-term debt, net at September 30, 2020 and December 31, 2019 (in thousands):

	September 30, 2020	December 31, 2019
1.25% Senior Convertible Notes due 2025		
Principal	$ 201,250	$ —
Unamortized debt discount	(34,245)	—
Unamortized debt issuance costs	(565)	—
Total 1.25% Senior Convertible Notes due 2025	166,440	—
Term loan		
Principal	$ —	$ 97,500
Unamortized debt issuance costs	—	(671)
Total term loan	—	96,829
Financing obligations	5,099	8,631
Total debt	$ 171,539	$ 105,460
Less: Current portion of long-term debt	—	(5,000)
Less: Current portion of financing obligations	(3,700)	(5,432)
Total long-term debt, net	$ 167,839	$ 95,028

At September 30, 2020 and December 31, 2019, the carrying value of the Company's financing obligations approximated fair value based on the current market conditions for similar instruments. At December 31, 2019, the carrying value of the Company's term loan approximated fair value based on the current market conditions for similar instruments.

1.25% Convertible Senior Notes

On May 4, 2020 (the "Closing Date"), the Company completed the sale of $201.3 million of Convertible Senior Notes with a stated interest rate of1.25% and a maturity date of May 1, 2025 (the "Convertible Notes"), unless earlier converted, redeemed, or repurchased. The Convertible Notes were issued at a discounted price of 97% of their principal amount. The total net proceeds from the issuance of the Convertible Notes and exercise of the Over-allotment Option was approximately $194.4 million, which includes approximately $6.9 million of discounts, commissions and offering expenses paid by the Company. On May 4, 2020, the Company entered into an Indenture (the "Indenture"), with U.S. Bank National Association, as trustee (the "Trustee"), governing the Convertible Notes.

Prior to February 1, 2025, noteholders may convert their Convertible Notes at their option, only in the following circumstances: (1) during any calendar quarter commencing after the calendar quarter ending on September 30, 2020 (and only during such calendar quarter), if the last reported sale price of the common stock for at least 20 trading days (whether or not consecutive) during a period of 30 consecutive trading days ending on, and including, the last trading day of the immediately preceding calendar quarter is greater than or equal to 130% of the conversion price on each applicable trading day; (2) during thefive business day period after any five consecutive trading day period in which the trading price per $1,000 principal amount of Convertible Notes for each trading day of the measurement period was less than 98% of the product of the last reported sale price of the Company's common stock and the conversion rate on each such trading day; (3) if the Company calls any or all of the notes for redemption, at any time prior to the close of business on the scheduled trading day immediately preceding the redemption date; or (4) upon the occurrence of specified corporate events. On or after February 1, 2025 until the close of business on the business day immediately preceding the maturity date, noteholders may convert their Convertible Notes at any time, regardless of the foregoing circumstances.

Upon conversion, the Company will pay or deliver, as applicable, cash, shares of common stock or a combination of cash and shares of common stock, at its election. The initial conversion rate for the Convertible Notes is 27.5198 shares of common stock per $1,000 in principal amounts of Convertible Note, equivalent to an initial conversion price of approximately $36.34 per share of common stock. The conversion rate is subject to adjustment as described in the Indenture. In addition, following certain corporate events that occur prior to the maturity date as described in the Indenture, the Company will pay a make-whole premium by increasing the conversion rate for a holder who elects to convert its Convertible Notes in connection with such a corporate event in certain circumstances. The value of the Convertible Notes, if-converted, exceeds it's principal amount by $3.1 million based on a closing stock price of $36.89 on September 30, 2020. For the three months ended September 30, 2020 the Company included5,538,360 shares in diluted weighted average common shares outstanding for the if-converted impact of

the Convertible Notes. For the nine months ended September 30, 2020 the Company is in a net loss position, therefore, the shares that would be issued upon conversion of the Convertible Notes are excluded from the net loss per share calculation as it would have an antidilutive effect. For further details on the impact of the Convertible Notes on net (loss) income per share please refer to Note 12. Net Income (Loss) Per Share.

The Company may not redeem the Convertible Notes prior to May 6, 2023. The Company may redeem for cash all or any portion of the Convertible Notes, at its option, on or after May 6, 2023 if the last reported sale price of its common stock has been at least 130% of the conversion price then in effect for at least20 trading days (whether or not consecutive) during any 30 consecutive trading day period (including the last trading day of such period) ending on, and including, the trading day immediately preceding the date of notice by the Company of redemption at a redemption price equal to 100% of the principal amount of the Convertible Notes to be redeemed, plus accrued and unpaid interest to, but excluding, the redemption date. No sinking fund is provided for the Convertible Notes.

If an event involving bankruptcy, insolvency or reorganization events with respect to the Company occurs, then the principal amount of, and all accrued and unpaid interest on, all of the Convertible Notes then outstanding will immediately become due and payable. If any other default event occurs and is continuing, then noteholders of at least 25% of the aggregate principal amount of the Convertible Notes then outstanding, by notice to the Company, may declare the principal amount of, and all accrued and unpaid interest on, all of the Convertible Notes then outstanding to become due and payable immediately. If the Company undergoes a “fundamental change” as defined in the Indenture, then noteholders may require the Company to repurchase their Convertible Notes at a cash repurchase price equal to the principal amount of the Convertible Notes to be repurchased, plus accrued and unpaid interest, if any, to, but excluding, the fundamental change repurchase date.

The Convertible Notes are the Company’s senior, unsecured obligations and will be equal in right of payment with its existing and future senior, unsecured indebtedness, senior in right of payment to its existing and future indebtedness that is expressly subordinated to the Convertible Notes and effectively junior to its existing and future secured indebtedness, to the extent of the value of the collateral securing that indebtedness. The Convertible Notes will be structurally subordinated to all existing and future indebtedness and other liabilities, including trade payables, of its subsidiaries.

The interest expense recognized on the Convertible Notes includes $0.6 million, $1.8 million and $25,600 for the contractual coupon interest, the accretion of the debt discount and the amortization of the debt issuance costs, respectively, for the three months ended September 30, 2020. For the nine months ended September 30, 2020, the interest expense recognized on the Convertible Notes for the contractual coupon interest, the accretion of the debt discount and the amortization of the debt issuance costs includes $1.0 million, $2.7 million and $44,700, respectively. The effective interest rate on the Convertible Notes is5.5%, which includes the interest on the Convertible Notes and amortization of the debt discount and debt issuance costs. Interest on the Convertible Notes began accruing upon issuance and is payable semi-annually.

The Convertible Notes are accounted for as separate liability and equity components. The allocation was performed in a manner that reflected the Company’s non-convertible debt borrowing rate for similar debt. The equity component of the Convertible Notes was recognized as a debt discount and represents the difference between the proceeds from the issuance of the Convertible Notes and the fair value of the liability of the Convertible Notes on the date of issuance. At the Closing Date, the equity component representing the conversion option was determined to be $21.6 million, net of tax, and was initially recorded by deducting the carrying value of the liability component from the initial proceeds from the Convertible Notes. During the three months ended September 30, 2020 the Company adjusted the equity component representing the conversion option. At September 30, 2020 the equity component of the conversion option was $23.1 million, net of tax. The excess of the principal amount of the Convertible Notes over the carrying amount of the liability component represents a debt discount that is amortized to interest expense over the term of the Convertible Notes under the effective interest rate method. The equity component is not re-measured as long as it continues to meet the conditions for equity classification.

Prior Senior Secured Credit Agreement

On May 4, 2020, the Company terminated its Senior Secured Credit Agreement (the "Prior Senior Secured Credit Agreement") and used $96.3 million of the net proceeds from the Convertible Notes to repay all outstanding amounts owed thereunder.

On June 27, 2019 (the "Prior Closing Date"), the Company entered into the Prior Senior Secured Credit Agreement with PNC Bank National Association ("PNC"), as administrative agent, and the lenders party thereto. The Prior Senior Secured Credit Agreement provided for a $100.0 million revolving credit facility (the "Prior Revolving Credit Facility"), a $100.0 million term loan facility (the "Prior Term Loan Facility"), and a $50.0 million delayed draw term loan (the "Prior Delayed Draw Term Loan").

Borrowings under the Prior Senior Secured Credit Agreement bore interest at a rate per annum equal to an applicable margin plus, at the Company's option, either (1) the Adjusted LIBOR rate for the relevant interest period, as defined within the agreement (2) an alternate base rate determined by reference to the greatest of (a) the federal funds rate for the relevant interest period plus 0.5% per annum, (b) the prime lending rate of PNC and (c) the daily LIBOR rate plus1% per annum, or (3) a combination of (1) and (2). The applicable margin ranged from 1.25% to 2.25% for LIBOR loans and 0.25% to 1.25% for base rate loans, in each case based on NeoGenomics' Consolidated Leverage Ratio (as defined in the New Credit Agreement). Interest on borrowings under the New Credit Agreement was 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 Company had previously entered into an interest rate swap agreements to hedge against changes in the variable rate for a portion of our long term debt. See Note 9. Derivative Instruments and Hedging Activities, for more information on these instruments.

The Prior Revolving Credit Facility included a $10.0 million swing loan sublimit, with swing loans that bore interest at the alternate base rate plus the applicable margin. Any principal outstanding under the Prior Revolving Credit Facility was due and payable on June 27, 2024 or such earlier date as the obligations under the Prior Senior Secured Credit Agreement became due and payable pursuant to the terms of the Prior Senior Secured Credit Agreement. No amounts were outstanding under the Prior Revolving Credit Facility as of December 31, 2019.

Principal payments on the Prior Term Loan Facility were due on the last day of each fiscal quarter with an annual principal amortization of5% in the first year, 5% in the second year, 7.5% in the third year, 7.5% in the fourth year, and 10% in each year thereafter, with the remainder due upon maturity on June 27, 2024 or such earlier date as the obligations under the Prior Senior Secured Credit Agreement become due and payable pursuant to the terms of the Prior Senior Secured Credit Agreement.

On December 31, 2019, the Company had current outstanding borrowings under the Prior Term Loan Facility of approximately $5.0 million, and long-term outstanding borrowings of approximately $91.8 million, net of unamortized debt issuance costs of $0.7 million. In association with the early termination of the debt, the Company incurred a loss on the extinguishment of debt of $1.4 million.

In addition to paying interest on outstanding principal under the Prior Senior Secured Credit Agreement, the Company was required to pay a commitment fee in respect of the unutilized portion of the commitments under the Prior Revolving Credit Facility and the Prior Delayed Draw Term Loan. The commitment fee rate ranged from 0.15% to 0.35% depending on NeoGenomics' Consolidated Leverage Ratio. The Company also paid customary letter of credit and agency fees.

The Prior Term Loan Facility contained various covenants including entering into certain indebtedness; 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 burdensome agreements; make investments, loans and acquisitions; merge or consolidate with any other person; dispose of assets; enter into certain sale and leaseback transactions; engage in transactions with its affiliates, and materially alter the business it conducts. In addition, the Company was required to meet certain maximum leverage ratios and fixed charge coverage ratios as of the end of each fiscal quarter.

The Prior Term Loan Facility required the Company to mandatorily prepay the Prior Term Loan Facility and amounts borrowed under the Prior Revolving Credit Facility with (i) 100% of net cash proceeds from certain sales and dispositions, subject to certain reinvestment rights, and (ii)100% of net cash proceeds from certain issuances or incurrences of additional debt.

Financing Obligations

The Company has entered into loans with various banks to finance the purchase of laboratory equipment, office equipment and leasehold improvements. These loans mature at various dates through 2022 and the weighted average interest rate under such loans was approximately 4.91% as of September 30, 2020 and 4.64% as of December 31, 2019.

Maturities of Long-Term Debt

Maturities of long-term debt as of September 30, 2020 are summarized as follows (in thousands):

	1.25% Convertible Senior Notes	Financing Obligations	Total Debt
Remainder of 2020	$ —	$ 1,252	$ 1,252
2021	—	2,880	2,880
2022	—	916	916
2023	—	51	51
2024	—	—	—
2025	167,005	—	167,005
Total Debt	167,005	5,099	172,104
Less: Current portion of long-term debt	—	(3,700)	(3,700)
Less: Debt issuance costs	(565)	—	(565)
Long-term debt, net	$ 166,440	$ 1,399	$ 167,839

Note 9. Derivative Instruments and Hedging Activities

As of September 30, 2020, the Company did not have any outstanding interest rate swap agreements. In June of 2018, the Company entered into an interest rate swap agreement to reduce the Company's exposure to interest rate fluctuations on the Company's variable rate debt obligations. This derivative financial instrument was accounted for at fair value as a cash flow hedge to effectively modify the Company's exposure to interest rate risk by converting a portion of its prior floating rate debt to a fixed rate obligation, thus reducing the impact of interest rate changes on interest expense.

Under the swap agreement, the Company received a variable rate of interest based on LIBOR and paid a fixed rate of interest.The following table summarizes the previous interest rate swap agreement.

	June 2018 Hedge
Notional Amount	$ 70 million
Effective Date	June 29, 2018
Index	One month LIBOR
Maturity	December 31, 2021
Fixed Rate	2.98 %

As discussed in Note 8. Debt, concurrently with the closing of the Convertible Notes, the proceeds from this transaction were used to pay off all amounts outstanding under our Prior Senior Secured Credit Agreement, after which the Company had no outstanding debt with variable rate interest. On May 1, 2020, the remaining obligation to make any further payments under the swap agreement was terminated. As a result of the termination, the company paid a termination fee of $3.3 million, which is included within Loss on Termination of Cash Flow Hedge in the Consolidated Statements of Operations.

As of December 31, 2019, the fair value of the derivative financial instruments included in other long-term liabilities was approximately $1.0 million. Fair value adjustments were historically recorded as an adjustment to Accumulated Other Comprehensive Income ("AOCI"), except that any gains and losses on ineffectiveness of the interest rate swap were recorded as an adjustment to "Other (income) expense, net". In the second quarter of 2020, upon termination of the interest rate swap, the accumulated losses of $2.7 million, net of tax, related to the interest rate swap were reclassified from AOCI to Loss on Termination of Cash Flow Hedge in the Consolidated Statements of Operations.

Note 10. Equity

Underwritten Public Equity Offering

On April 29, 2020, the Company entered into an underwriting agreement relating to the issuance and sale of 4,400,000 shares of the Company's common stock, $0.001 par value per share (the "Common Stock Offering"). The price to the public in this offering was $28.50 per share. The net proceeds to the Company from the Common Stock Offering were approximately $117.9 million, after deducting underwriting discounts and commissions of approximately $7.5 million.

Under the terms of the underwriting agreement, the Company also granted the Underwriters a 30-day option to purchase up to 660,000 additional shares of Common Stock at the public offering price, less underwriting discounts and commissions. On May 29, 2020, the Underwriters partially exercised their option and on June 3, 2020, purchased an additional 351,500 shares. The net proceeds related to the option exercise were approximately $9.4 million, after deducting underwriting commissions of approximately $0.6 million.

Note 11. Stock-Based Compensation

The Company recorded approximately $2.7 million and $3.3 million in stock-based compensation expense for the three months ended September 30, 2020 and 2019, respectively, and approximately $7.5 million and $7.7 million in stock-based compensation expense for the nine month periods ended September 30, 2020 and 2019, respectively.

A summary of the stock option activity under the Company's plans for the nine months ended September 30, 2020 is as follows:

	Number of Shares	Weighted Average Exercise Price
Options outstanding at December 31, 2019	5,318,759	$ 9.97
Options granted	845,120	$ 28.33
Less:		
Options exercised	1,276,144	$ 7.75
Options forfeited	63,169	$ 15.82
Options outstanding at September 30, 2020	4,824,566	$ 13.72
Exercisable at September 30, 2020	2,552,710	$ 8.86

The fair value of each stock option award granted during the nine months ended September 30, 2020 was estimated as of the grant date using a trinomial lattice model with the following weighted average assumptions:

	Nine Months Ended September 30, 2020
Expected term (in years)	4.0 - 5.5
Risk-free interest rate (%)	0.7%
Expected volatility (%)	39.9% - 44.6%
Dividend yield (%)	—
Weighted average fair value/share at grant date	$8.88

As of September 30, 2020, there was approximately $7.3 million of unrecognized stock-based compensation expense related to stock options that will be recognized over a weighted-average period of approximately 1.93 years.

A summary of the restricted stock activity under the Company's plans for the nine months ended September 30, 2020 is as follows:

	Number of Restricted Shares	Weighted Average Grant Date Fair Value
Nonvested at December 31, 2019	335,298	$ 15.75
Granted	149,012	$ 28.44
Vested	(183,532)	$ 12.88
Forfeited	(5,540)	$ 21.10
Nonvested at September 30, 2020	295,238	$ 23.78

As of September 30, 2020, there was approximately $4.2 million of unrecognized stock-based compensation expense related to restricted stock that will be recognized over a weighted-average period of approximately 1.90 years.

Employee Stock Purchase Plan ("ESPP")

The Company offers an ESPP through which eligible employees may purchase shares of the Company's common stock at a discount of 15% of the fair market value of the Company's common stock.

During the three months ended September 30, 2020 and 2019, employees purchased 29,853 and 28,672 shares, respectively, under the ESPP. The expense recorded for these periods was approximately $0.2 million and $0.1 million, respectively. During the nine months ended September 30, 2020 and 2019, employees purchased 105,241 and 101,959 shares, respectively, under the ESPP. The expense recorded for these periods was approximately $0.6 million and $0.4 million, respectively.

Note 12. Net Income (Loss) Per Share

We present both basic earnings per share ("EPS") and diluted EPS. Basic EPS excludes potential dilution and is computed by dividing "Net income (loss)" by the weighted-average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if stock awards were exercised and if our Convertible Notes were converted. The potential dilution from stock awards is accounted for using the treasury stock method based on the average market value of the Company's common stock. The potential dilution from conversion of the Convertible Notes is accounted for using the if-converted method, which requires that all of the shares of the Company's common stock issuable upon conversion of the Convertible Notes will be included in the calculation of diluted EPS assuming conversion of the Convertible Notes at the beginning of the reporting period (or at time of issuance, if later).

The following table shows the calculations for the three and nine months ended September 30, 2020 and 2019 (in thousands, except per share amounts).

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Numerator - basic				
Net income (loss)	$ 2,557	$ 2,143	$ (11,245)	$ 1,710
Numerator - diluted				
Net income (loss)	$ 2,557	$ 2,143	$ (11,245)	$ 1,710
Convertible note accretion, amortization, and interest, net of tax	1,975	—	—	—
Net income (loss) used in diluted EPS	$ 4,532	$ 2,143	$ (11,245)	$ 1,710
Denominator				
Basic weighted average shares outstanding	110,461	103,899	107,605	99,149
Dilutive effect of stock options	3,017	3,650	—	3,349
Dilutive effect of restricted stock awards	175	331	—	268
Dilutive effect of Convertible Notes	5,538	—	—	—
Diluted weighted average shares outstanding	119,191	107,880	107,605	102,766
Basic net income (loss) per share	$ 0.02	$ 0.02	$ (0.10)	$ 0.02
Diluted net income (loss) per share	$ 0.04	$ 0.02	$ (0.10)	$ 0.02

The following potential dilutive shares were excluded from the calculation of diluted net loss per share because their effect would be anti-dilutive for the three and nine months ended September 30, 2020 and 2019:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Stock options	—	—	3,069,286	—
Restricted stock awards	—	—	201,579	—
Convertible Notes	—	—	3,112,801	—

Note 13. Related Party Transactions

On May 22, 2020, the Company formed a strategic alliance with Inivata Limited, a company incorporated in England and Wales ("Inivata"), and entered into a Strategic Alliance Agreement and Laboratory Services Agreement whereas Inivata will render and perform certain laboratory testing which the Company will make available to customers.

For further details on the investment made in Inivata, please refer to Note 14. Investment in Non-Consolidated Affiliate.

Note 14. Investment in Non-Consolidated Affiliate

On May 22, 2020, the Company formed a strategic alliance with Inivata Limited, a company incorporated in England and Wales ("Inivata"), and entered into a Strategic Alliance Agreement and Laboratory Services Agreement whereas Inivata will render and perform certain laboratory testing which the Company will make available to customers. The terms and conditions of the Laboratory Services Agreement are consistent with those that would be negotiated between willing parties on an arm's length basis. Related party amounts related to Inivata for the third quarter were immaterial.

In addition to the Laboratory Services Agreement, the Company also entered into an Investment Agreement with Inivata (the "Investment Agreement"), pursuant to which the Company acquired Series C1 Preference Shares (the "Preference Shares") for $25 million in cash (the "Investment") resulting in a minority interest in Inivata's outstanding equity and an Option Deed which provides the Company with an option to purchase Inivata (the "Purchase Option"). The Investment was made in two equal installments, with the initial installment made in May 2020 and the second installment in August 2020.

Inivata is a VIE and the Company's investment is under 20% of the total equity outstanding. The Company considers qualitative factors in assessing the primary beneficiary of the VIE which include understanding the purpose and design of the VIE, associated risks that the VIE creates, activities that could be directed by the Company, and the expected relative impact of those activities on the economic performance of the VIE. Based on an evaluation of these factors, the Company concluded that it is not the primary beneficiary of Inivata.

The power to control the activities that most significantly impact Inivata's economic performance are the sole responsibility of Inivata's management, however the Company does have significant influence over Inivata. As the Preference Shares were determined to not be in-substance common stock, and because the Preference Shares and the Purchase Option do not have readily determinable fair values, the Company has elected to measure the Preference Shares and the Purchase Option at cost, minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer. There were no such events and the Company determined no adjustments to the carrying amounts of the Preference Shares and the Purchase Option were necessary at September 30, 2020.

Upon acquisition, the Investment was allocated between the Preference Shares and the Purchase Option based on the relative fair value of each and is recorded, along with associated transaction costs, as "Investment in non-consolidated affiliate" on the Consolidated Balance Sheets. As of September 30, 2020, the investment is classified as Level 3 in the fair value hierarchy as its equity is not traded on a public exchange. At September 30, 2020, the carrying amount of the investment in non-consolidated affiliate is $25.6 million. The value is comprised of $19.2 million in Preference Shares, a $5.8 million Purchase Option and $0.6 million of associated transaction costs.

The Company and Inivata also entered into a line of credit agreement in the amount of $15 million (the "Line of Credit"). The Line of Credit will be available to be drawn by Inivata beginning on January 1, 2021 and has a maturity date of December 1, 2025. The Line of Credit bears interest at 0% per annum and the unpaid principal balance is payable on January 1, 2026. The Line of Credit is subject to evaluation for current expected credit losses. The impact of such losses were determined to be immaterial for the three and nine months ended September 30, 2020.

At September 30, 2020, the maximum exposure to losses does not exceed the carrying amount of the investment combined with the contractual obligation to fund to Line of Credit.

Note 15. Segment Information

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

The financial information reviewed by the Chief Operating Decision Maker ("CODM") includes revenues, cost of revenue and gross margin for each of the Company's operating segments. Assets are not presented at the segment level as that information is not used by the CODM.

The following table summarizes the segment information (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Net revenues:				
Clinical Services	$ 108,733	$ 92,565	$ 275,599	$ 267,757
Pharma Services	16,711	12,107	42,852	34,205
Total revenue	125,444	104,672	318,451	301,962
Cost of revenue:				
Clinical Services	60,607	47,526	158,287	136,557
Pharma Services	10,772	6,314	31,724	18,492
Total cost of revenue	71,379	53,840	190,011	155,049
Gross Profit:				
Clinical Services	48,126	45,039	117,312	131,200
Pharma Services	5,939	5,793	11,128	15,713
Total gross profit	54,065	50,832	128,440	146,913
Operating expenses:				
General and administrative	36,128	33,054	107,085	94,773
Research and development	1,964	2,611	6,129	6,407
Sales and marketing	11,304	11,508	34,757	35,048
Total operating expenses	49,396	47,173	147,971	136,228
Income (loss) from operations	4,669	3,659	(19,531)	10,685
Interest expense, net	2,458	203	4,825	3,333
Other (income) expense, net	(11)	(35)	(7,639)	5,124
Loss on extinguishment of debt	—	—	1,400	1,018
Loss on termination of cash flow hedge	—	—	3,506	—
Income (loss) before taxes	2,222	3,491	(21,623)	1,210
Income tax (benefit) expense	(335)	1,348	(10,378)	(500)
Net income (loss)	$ 2,557	$ 2,143	$ (11,245)	$ 1,710

Note 16. Subsequent Event

On October 22, 2020, HHS issued an updated Post-Payment Notice of Reporting Requirements and a Reporting Requirements Policy Update (together, the "October 22, 2020 Notice") which, among other changes, effectively reinstates the definition of lost revenues that was the basis for the $7.9 million of grant income received and recognized during the nine months ended September 30, 2020. For further details on the grant income received and recognized please refer to Note 1. Nature of the Business, Basis of Presentation and Significant Accounting Policies. The Company's evaluation of the October 22, 2020 Notice is ongoing and the amount by which the $ 7.9 million of grant income may be utilized as a result of the October 22, 2020 Notice is not yet known.

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

COVID-19 Pandemic

In December 2019, a novel strain of coronavirus ("COVID-19") was identified and the disease has since spread across the world, including the United States. In March 2020, the World Health Organization declared the outbreak of COVID-19 a pandemic. The outbreak of the pandemic is materially adversely affecting the Company's employees, patients, communities and business operations, as well as the United States ("U.S.") economy and financial markets. The full extent to which the COVID-19 outbreak will impact the Company's business, results of operations, financial condition and cash flows will depend on future developments that are highly uncertain and cannot be accurately predicted, including new information that may emerge concerning COVID-19 and the actions to contain it or treat its impact and the economic impact on local, regional, national and international markets. As the COVID-19 pandemic continues, the Company's results of operations, financial condition and cash flows are likely to continue to be materially adversely affected, particularly if the pandemic persists for a significant amount of time.

The impact from the COVID-19 pandemic and the related disruptions have had a material adverse impact on our results of operations, volume growth rates and clinical test volumes in 2020. Demand may fluctuate to historically low levels depending on the duration and severity of the COVID-19 pandemic, the length of time it takes for normal economic and operating conditions to resume, additional governmental actions that may be taken and/or extensions of time for restrictions that have been imposed to date, and numerous other uncertainties. Such events may result in business disruption, reduced revenues and number of tests, any of which could materially affect our business, financial condition, and results of operations.

We have implemented significant actions to protect our employees and maintain a safe environment while maintaining a continuity of critical oncology testing for cancer patients. Among other actions, we have de-densified our laboratories and facilities, adjusted laboratory shifts, restricted visitors to facilities, restricted employee travel, implemented an Emergency Paid Time Off policy, provided remote work-environment training and support, and managed its supply chains. Importantly, all main laboratory facilities have remained open and there has been an uninterrupted continuity of high-quality testing services for clients. The Company's top priority remains the health and safety of employees and continued quality and service for all clients with a focus on patient care. We are positioned to recover from the effects of the COVID-19 pandemic. The addition of COVID-19 PCR testing capabilities and our broad test menu enables our sales teams to identify opportunities for increasing revenues.

For additional information on risk factors related to the pandemic or other risks that could impact our results, please refer to "Risk Factors" in Part II, Item 1A of this Form 10-Q, and in our Annual Report on Form 10-K for the fiscal year ended December 31, 2019 and our Quarterly Reports on Form 10-Q for the fiscal quarters ended March 31, 2020 and June 30, 2020.

Overview

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

As of September 30, 2020, the Company had laboratory locations in Fort Myers and Tampa, Florida; Aliso Viejo, Carlsbad and San Diego, California; Houston, Texas; Atlanta, Georgia; Nashville, Tennessee; Rolle, Switzerland and Singapore. The Company currently offers the following types of testing services:

a. Cytogenetics ("karyotype analysis") – the study of normal and abnormal chromosomes and their relationship to disease. Cytogenetics involves analyzing the chromosome structure to identify changes from patterns seen

in normal chromosomes. Cytogenetic studies are often performed to provide diagnostic, prognostic and occasionally predictive information for patients with hematological malignancies.

b. Fluorescence In-Situ Hybridization ("FISH") – a molecular cytogenetic technique that focuses on detecting and localizing the presence or absence of specific DNA sequences and genes on chromosomes. 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 numerous types of gene alterations, including amplifications, deletions, and translocations.

c. Flow cytometry – a technique utilized to measure the characteristics of cell populations. Typically performed on liquid samples such as peripheral blood and bone marrow aspirate, it may also be performed on solid tissue samples such as lymph nodes following additional processing steps. Cells 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 cellular antigens and are used to identify abnormal and/or malignant cell populations. Flow cytometry is typically utilized in diagnosing a wide variety of hematopoietic and lymphoid neoplasms. Flow cytometry is also used to monitor patients during the course of therapy to identify extremely low levels of residual malignant cells, known as minimal residual disease (MRD) monitoring.

d. Immunohistochemistry (IHC) and Digital Imaging – the process of localizing cellular proteins in tissue sections and relies on the principle of antigen-antibody binding. IHC is widely used in the diagnosis of abnormal cells such as those found in cancer. Specific surface membrane, cytoplasmic, or nuclear markers may be identified. IHC is also widely used to understand the distribution and localization of differentially expressed proteins. Digital imaging allows clients to visualize scanned slides, and also 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 field which includes a broad range of laboratory techniques utilized in cancer testing. Most molecular techniques rely on the analysis of DNA and/or RNA, as well as the structure and function of genes at the molecular level. Molecular testing technologies include: liquid biopsy tests for advanced non-small cell lung cancer, all solid tumor types (pan-cancer), and certain breast cancer cases; DNA fragment length analysis; polymerase chain reaction (PCR) analysis; reverse transcriptase polymerase chain reaction (RT-PCR) analysis, real-time (or quantitative) polymerase chain reaction (qPCR) analysis; bi-directional Sanger sequencing analysis; and next-generation sequencing (NGS) analysis.

f. Morphologic analysis – the process of analyzing cells under the microscope by a pathologist, usually for the purpose of diagnosis. Morphologic analysis may be performed on a wide variety of samples, such as peripheral blood, bone marrow, lymph node, and from other sites such as lung, breast, etc. The services provided at NeoGenomics may include primary diagnosis, in which a sample is received for processing and our pathologists provide the initial diagnosis; or may include secondary consultations, in which slides and/or tissue blocks are received from an outside institution for second opinion. In the latter setting, the expert pathologists at NeoGenomics assist our client pathologists on their most difficult and complex 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.

NeoGenomics is a leading provider of Molecular and next-generation sequencing ("NGS") testing. These tests are interpreted by NeoGenomics' team of Molecular experts and are often ordered in conjunction with other testing modalities. NGS panels are one of our fastest growing testing areas and clients can often receive a significant amount of biomarker information from very

limited samples. These comprehensive panels can allow for faster treatment decisions for patients as compared to a series of single-gene molecular tests being ordered sequentially. NeoGenomics has one of the broadest Molecular menus in the industry and our targeted NeoTYPE panels include genes relevant to a particular cancer type, as well as other complementary tests such as immunohistochemistry and FISH. This comprehensive menu means that NeoGenomics can be a "one-stop shop" for our clients who can get all of their oncology testing needs satisfied by our laboratory. This is attractive to our clients as patient samples do not need to be split and then managed across several laboratories. NeoGenomics expects our Molecular laboratory and NGS capabilities to be a key growth driver in the coming years.

In addition, we directly serve oncology, dermatology and other clinician practices that prefer to have a direct relationship with a laboratory for cancer-related genetic 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 revenue consists of three revenue streams:

- Clinical trials and research;
- Validation laboratory services; and
- Informatics

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 provides 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.

We believe that NeoGenomics is uniquely positioned to service Pharma sponsors across the full continuum of the drug development process. Our Pharma Services team can work with them during the basic research and development phase as compounds come out of translational research departments as well as work with clients from Phase 1 clinical trials through Phases II and III as the sponsors work to prove the efficacy of their drugs. The laboratory biomarker tests that are developed during this process may become companion diagnostic, or CDx tests, that will be used on patients to determine if they could respond to a certain therapy. NeoGenomics is able to offer these CDx tests to the market immediately after FDA approval as part of our Day 1 readiness program. This ability helps to speed the commercialization of their drug and enables Pharma sponsors to reach patients through NeoGenomics broad distribution channel in the Clinical Services segment.

We are building informatics and data-related tools to leverage our unique market position and oncology expertise to help our stakeholders solve real-world problems such as identifying patients for clinical trials or providing clinical decision support tools for physicians and providers.

2020 Focus Areas:

We are committed to improving patient care while being an innovative leader in our industry. Over the past two years we have grown our business organically as well as through the acquisition of Genesis Acquisition Holding Corp ("Genesis"), and its

wholly owned subsidiary, Genoptix, Inc. ("Genoptix", and collectively with its subsidiaries and Genesis, referred to herein as "Genoptix") in December of 2018, as well as the acquisition of the Oncology Division assets of Human Longevity, Inc. ("HLI - Oncology") in January of 2020. Our focus for 2020 includes initiatives to drive profitable growth while pursuing innovation and maintaining exceptional service levels. We expect these initiatives to allow the Company to continue becoming one of the world's leading cancer testing and information company.

Strengthen Our World-Class Culture

Enhancing our culture to closely align with the values of our Company is a key priority. We will invest in the development of our people by creating mentoring, coaching and training opportunities to enhance and capitalize on the talent within our Company. We believe these initiatives will foster a culture of accountability and empowerment. We also believe these initiatives are necessary to ensure the success of our Company.

We actively promote the health and well-being of our employees. We recognize that health goes beyond greater health benefits and preventative care and includes the quality of the physical work environment and programs that encourage social responsibility and community engagement.

Additionally, inclusive communication is a key element in our high performance culture. Effective communication facilitates collaboration and enhances our employees' understanding of their contributions to the Company's overall objectives. We will foster employee engagement through collaborative forums, frequent team dialogue and recognition programs to reward teams for exceptional performance. Our employee retention rate is above average for our industry and continuing to strengthen our culture will enable us to recruit and retain world-class talent.

Continue to Provide Uncompromising Quality and Exceptional Service

Maintaining the highest quality laboratory operations and service levels has enabled us to consistently grow our business. We are continuously looking for ways to improve quality and implement best practices to streamline processes. We are focused on increasing automation with solutions that will maintain quality while improving efficiency in operations.

We will continue to grow a culture of quality through our leadership, coaching and employee training initiatives. We aim to empower our employees to deliver high-quality results in their respective function. We will implement initiatives to measure and improve turnaround times while maintaining a culture of quality, which we expect will continue to meet or exceed our customers' expectations.

Pursue Innovation and Growth

Our plans for 2020 include initiatives to continue to drive profitable growth and innovate. We will continue to pursue market share gains by providing high complexity, cancer-related laboratory testing services to hospitals, community-based pathology and oncology practices, academic centers, clinicians, and pharmaceutical companies. Additionally, we will focus on continued reimbursement effectiveness through improving coverage, streamlining processes and providing clients more efficient, automated ordering methods, which we believe will continue to fuel our growth and market share.

Our laboratory and informatics teams will continue focus on new assays and product offerings, including continued progress towards liquid biopsy, minimal residual disease ("MRD") and other high-quality tests. We expect this to result in increased market share as well as enabling us to maintain our high levels of client retention.

Our broad and innovative test menu of molecular, including NGS, immunohistochemistry, and other testing has helped make us a "one-stop shop" for many clients who value that all of their testing can be sent to one laboratory. We will continue to look for growth opportunities through mergers and/or acquisitions and are focused on strategic opportunities that would be complementary to our menu of services and would increase our earnings and cash flow in the short to medium time frame. We are also focused on investing in business development and informatics capabilities to partner with our key stakeholders, including patients, providers, payers and pharmaceutical companies to provide solutions to current or near-term problems that they face.

Competitive Strengths

In addition to the competitive strengths discussed below, the Company believes that its superior testing technologies and instrumentation, laboratory information system, client education programs and broad domestic and growing international presence also differentiates NeoGenomics from its competitors.

Turnaround Times

We strive to provide industry leading turnaround times for test results to our clients nationwide, both in the Clinical Services and Pharma Services segments. By providing information to our clients in a rapid manner, physicians can begin treating their patients as soon as possible. Our consistent timeliness of results by our Clinical Services segment is a competitive strength and

a driver of additional testing requests by 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. Additionally, we believe that our rapid turnaround time on testing and our project milestones are a key differentiator in our Pharma Services segment.

World-class Medical and Scientific Team

Our team of medical professionals and Ph.Ds. are specialists in the field of genetics, oncology and pathology. As of September 30, 2020, we employed or contracted with over 120 M.D.s and Ph.Ds. We have many nationally and world-renowned pathologists on staff, which is a key differentiator from many smaller laboratories. Our clinical customers look to our staff and their expertise and they often call our medical team on challenging cases. For our Pharma Services segment, many sponsors work with our medical team on their study design and on the interpretation of results from the studies. Our medical team is a key differentiator as we have a depth of medical expertise that many other laboratories cannot offer to Pharmaceutical companies.

Innovative Service Offerings

We believe 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 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 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 their testing results. 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.

We believe we have one of the broadest Molecular and Next-Generation Sequencing test menus in the world. Clients have the ability to order single gene molecular tests, targeted NeoTYPE panels that include the relevant actionable genes for a particular cancer type as well as large NGS panels. Our Pharma Services Division offers a full range of sequencing testing including whole exome sequencing. Our menu enables us to be a true "one-stop shop" for our clients as we can meet all of their oncology testing needs.

National Direct Sales Force

Our direct sales force has been trained extensively in cancer genetic testing and consultative selling skills to service the needs of clients. Our sales team for the clinical cancer testing services is organized into five regions - Northeast, Southeast, North Central, South Central and West. Our Pharma Services segment has a dedicated team of business development specialists who are experienced in working with pharma sponsors and helping them with the testing needs of their research and development projects as well as Phase I, II and III studies. These sales representatives utilize our custom Customer Relationship Management System ("CRM") to manage their territories, and we have integrated all of the important customer care functionality within our Laboratory Information Services ("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. Our sales force educates clients on new test offerings and their proper utilization and our representatives are often seen as trusted advisors by our clients.

Seasonality

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

In our Pharma Services segment, we enter into both short-term and long-term contracts, ranging from one month to several years. While the volume of this testing is not as directly affected by seasonality as described above, the testing volume does vary based on the terms of the contract. Our volumes are often based on how quickly sponsors can get patient enrollees for their trials and seasonality can impact how quickly they can get patients enrolled. Many of our long term contracts contain specific performance obligations where the testing is performed on a specific schedule. This results in revenue that is not consistent among periods. In addition, this results in backlog that can be significant.

Results of Operations for the Three and Nine Months Ended September 30, 2020 as Compared to the Three and Nine Months Ended September 30, 2019

The following table presents the Consolidated Statements of Operations as a percentage of revenue:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Net revenue	100.0 %	100.0 %	100.0 %	100.0 %
Cost of revenue	56.9 %	51.4 %	59.7 %	51.3 %
Gross Profit	43.1 %	48.6 %	40.3 %	48.7 %
Operating expenses:				
General and administrative	28.8 %	31.6 %	33.6 %	31.4 %
Research and development	1.6 %	2.5 %	1.9 %	2.1 %
Sales and marketing	9.0 %	11.0 %	10.9 %	11.6 %
Total operating expenses	39.4 %	45.1 %	46.4 %	45.1 %
Income (loss) from operations	3.7 %	3.5 %	(6.1)%	3.6 %
Interest expense, net	2.0 %	0.2 %	1.5 %	1.1 %
Other (income) expense	— %	— %	(2.4)%	1.7 %
Loss on extinguishment of debt	— %	— %	0.4 %	0.3 %
Loss on termination of cash flow hedge	— %	— %	1.1 %	— %
Income (loss) before taxes	1.7 %	3.3 %	(6.7)%	0.5 %
Income tax (benefit) expense	(0.3)%	1.3 %	(3.3)%	(0.2)%
Net income (loss)	2.0 %	2.0 %	(3.4)%	0.7 %

Clinical and Pharma Services revenue for the periods presented are as follows ($ in thousands):

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2020	2019	$ Change	% Change	2020	2019	$ Change	% Change
Net revenues:								
Clinical Services	$ 108,733	$ 92,565	$ 16,168	17.5 %	$ 275,599	$ 267,757	$ 7,842	2.9 %
Pharma Services	16,711	12,107	4,604	38.0 %	42,852	34,205	8,647	25.3 %
Total Revenue	$ 125,444	$ 104,672	$ 20,772	19.8 %	$ 318,451	$ 301,962	$ 16,489	5.5 %

Revenue

Clinical Services revenue for the three and nine month periods ending September 30, 2020 increased $16.2 million and $7.8 million when compared to the same periods in 2019. These increases in revenue were primarily driven by COVID-19 PCR testing revenue of $17.0 million in the three month period ended September 30, 2020. Clinical testing volume[(1)] increased by approximately 2.0% and decreased by approximately 3.3% for the three and nine month periods ending September 30, 2020, respectively, compared to the same periods in 2019.

Pharma Services revenue for the three and nine month periods ended September 30, 2020 increased $4.6 million and $8.6 million compared to the same periods in 2019, primarily due to the impact of an increase in revenues related to clinical trials and the acquisition of HLI - Oncology. This growth was partially offset by an overall decrease in revenue due to the COVID-19 pandemic. In addition, our backlog of signed contracts has continued to grow from $130.3 million as of December 31, 2019 to $185.4 million as of September 30, 2020. We expect this backlog to result in higher revenues in future quarters.

The following table shows Clinical revenue, cost of revenue, requisitions received and tests performed for the three and nine months ended September 30, 2020 and 2019 excluding requisitions, tests, revenue and costs of revenue for Pharma Services and COVID-19 PCR tests. Testing revenue and cost of revenue are presented in thousands below:

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2020	2019	% Change	2020	2019	% Change
Clinical[1]:						
Requisitions (cases) received	147,518	145,312	1.5 %	406,250	427,406	(4.9)%
Number of tests performed	255,458	250,518	2.0 %	710,678	735,165	(3.3)%
Average number of tests/requisitions	1.73	1.72	0.6 %	1.75	1.72	1.7 %
Clinical testing revenue[1]	$ 91,777	$ 92,565	(0.9)%	$ 256,680	$ 267,757	(4.1)%
Average revenue/requisition	$ 622	$ 637	(2.4)%	$ 632	$ 626	1.0 %
Average revenue/test	$ 359	$ 369	(2.7)%	$ 361	$ 364	(0.8)%
Cost of revenue[1]	$ 50,401	$ 47,526	6.0 %	$ 146,645	$ 136,557	7.4 %
Average cost/requisition	$ 342	$ 327	4.6 %	$ 361	$ 320	12.8 %
Average cost/test	$ 197	$ 190	3.7 %	$ 206	$ 186	10.8 %

[1] Clinical tests exclude requisitions, tests, revenue and costs of revenue for Pharma Services and COVID-19 PCR tests.

Average revenue per test was approximately flat for the three and nine months ended September 30, 2020 compared to the corresponding periods in 2019.

Cost of Revenue and Gross Profit

Average cost per clinical test increased 3.7% and 10.8% for the three and nine month periods ended September 30, 2020, compared to the corresponding periods in 2019, reflecting a volume reduction due to the COVID-19 pandemic and the fixed nature of many of our laboratory costs. In addition, the Company did not reduce its workforce due to temporary declines in volume related to the COVID-19 pandemic.

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:

	Three Months Ended September 30,			Nine Months Ended September 30,		
($ in thousands)	2020	2019	% Change	2020	2019	% Change
Cost of revenue:						
Clinical Services	$ 60,607	$ 47,526	27.5 %	$ 158,287	$ 136,557	15.9 %
Pharma Services	10,772	6,314	70.6 %	31,724	18,492	71.6 %
Total cost of revenue	$ 71,379	$ 53,840	32.6 %	$ 190,011	$ 155,049	22.5 %
Cost of revenue as a % of revenue	56.9 %	51.4 %		59.7 %	51.3 %	
Gross profit:						
Clinical Services	$ 48,126	$ 45,039	6.9 %	$ 117,312	$ 131,200	(10.6)%
Pharma Services	5,939	5,793	2.5 %	11,128	15,713	(29.2)%
Total gross profit	$ 54,065	$ 50,832	6.4 %	$ 128,440	$ 146,913	(12.6)%
Gross profit margin	43.1 %	48.6 %		40.3 %	48.7 %	

Consolidated cost of revenue in dollars increased for the three and nine months ended September 30, 2020 when compared to the same periods in 2019. Cost of revenue as a percentage of revenue also increased year-over-year. These increases in cost of revenue are largely due to an increase in payroll related costs.

Gross profit margin decreased for the three and nine months ended September 30, 2020, compared to the same periods in 2019, primarily due to the timing of Pharma Services revenue, higher costs due to the integration of Genoptix and HLI - Oncology and additional testing capacity which was unused due to the impact of the COVID-19 pandemic.

General and Administrative Expenses

General and administrative expenses consist of payroll and payroll related costs for our billing, finance, human resources, information technology and other administrative personnel as well as stock-based compensation. 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 are as follows:

	Three Months Ended September 30,				Nine Months Ended September 30,			
($ in thousands)	**2020**	**2019**	**$ Change**	**% Change**	**2020**	**2019**	**$ Change**	**% Change**
General and administrative	$ 36,128	$ 33,054	$ 3,074	9.3 %	$ 107,085	$ 94,773	$ 12,312	13.0 %
As a % of revenue	28.8 %	31.6 %			33.6 %	31.4 %		

General and administrative expenses increased $3.1 million and $12.3 million for the three and nine months ended September 30, 2020, compared to the same period in 2019. These increases reflect acquisition costs and incremental expenses related to the acquisition of HLI - Oncology as well as higher payroll and payroll related costs due to increases in personnel to support our near and long-term growth. Acquisition and integration costs related to HLI - Oncology were approximately $0.4 million and $1.9 million for the three and nine months ended September 30, 2020.

We expect our general and administrative expenses to increase in total but decrease as a percentage of revenue as we add employee and compensation expenses, incur additional expenses associated with the expansion of our facilities, and continue to expand our physical and technological infrastructure to support our anticipated growth.

Research and Development Expenses

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

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

	Three Months Ended September 30,				Nine Months Ended September 30,			
($ in thousands)	**2020**	**2019**	**$ Change**	**% Change**	**2020**	**2019**	**$ Change**	**% Change**
Research and development	$ 1,964	$ 2,611	$ (647)	(24.8)%	$ 6,129	$ 6,407	$ (278)	(4.3)%
As a % of revenue	1.6 %	2.5 %			1.9 %	2.1 %		

Research and development expenses decreased $0.6 million and $0.3 million for the three and nine month periods ended September 30, 2020 when compared to the same periods in 2019. These decreases are due to the timing of project expenses offset by investments in new test development, particularly in COVID-19 PCR test development, our Next-Generation Sequencing and FDA initiatives.

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

Sales and Marketing Expenses

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

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

	Three Months Ended September 30,				Nine Months Ended September 30,			
($ in thousands)	**2020**	**2019**	**$ Change**	**% Change**	**2020**	**2019**	**$ Change**	**% Change**
Sales and marketing	$11,304	$ 11,508	$ (204)	(1.8)%	$ 34,757	$ 35,048	$ (291)	(0.8)%
As a % of revenue	9.0 %	11.0 %			10.9 %	11.6 %		

Sales and marketing expenses decreased $0.2 million and $0.3 million for the three and nine months ended September 30, 2020, when compared to the same periods in 2019. These decreases primarily reflect lower commissions paid in addition to a decrease in travel. Tradeshows switched to virtual formats beginning in March 2020 due to COVID-19 and that contributed to sharply reduced travel costs. We expect higher commissions expense in the coming years as the sales representatives continue generating new business with a focus on oncology office sales. We expect our sales and marketing expenses over the long term to align with changes in revenue.

Interest Expense, net

Net interest expense is comprised of interest incurred on our term loan, revolving credit facility and our other financing obligations offset by the interest income we earn on cash balances. Net interest expense for the three and nine months ending September 30, 2020 increased $2.3 million and $1.5 million, respectively, compared to the same period in 2019. These increases reflect the effective interest rate on the Convertible Notes which is 5.5%. Interest on the Convertible Notes began accruing upon issuance and is payable semi-annually. For further details regarding the Convertible Notes, please refer to Note 8. Debt, in the accompanying notes to the consolidated financial statements.

Other (income) expense, net

For the three and nine months ended September 30, 2020, other (income) expense, net, was income of $0.01 million and $7.7 million, respectively. The income for the nine months ended September 30, 2020 primarily relates to the recognition of $7.9 million in grant income related to the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act") Public Health and Emergency Fund. The Public Health and Emergency Fund created by the CARES Act and payments made are intended to reimburse healthcare providers for health care related expenses or lost revenues attributable to COVID-19 and are not required to be repaid provided that recipients attest to and comply with certain terms and conditions, including limitations on balance billing for COVID-19 patients. The stimulus payments were issued to partially offset losses in consolidated revenue due to the impact of the COVID-19 pandemic. For the nine months ended September 30, 2019, the Company reported expense of $5.1 million primarily related to a litigation settlement.

Income (Loss) Per Share

The following table provides consolidated net income (loss) for each period along with the computation of basic and diluted net income (loss) per share for the three and nine months ended September 30, 2020 and 2019 (in thousands, except per share amounts):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Net income (loss)	$ 2,557	$ 2,143	$ (11,245)	$ 1,710
Adjustment to the numerator for convertible notes in diluted EPS				
Net income (loss)	$ 2,557	$ 2,143	$ (11,245)	$ 1,710
Convertible note accretion, amortization, and interest, net of tax	1,975	—	—	—
Net income (loss) used in diluted EPS	$ 4,532	$ 2,143	$ (11,245)	$ 1,710
Basic weighted average shares outstanding	110,461	103,899	107,605	99,149
Diluted weighted average shares outstanding	119,191	107,880	107,605	102,766
Basic net income (loss) per share	$ 0.02	$ 0.02	$ (0.10)	$ 0.02
Diluted net income (loss) per share	$ 0.04	$ 0.02	$ (0.10)	$ 0.02

Non-GAAP Measures

Use of Non-GAAP Financial Measures

The Company's financial results and financial guidance are provided in accordance with GAAP and using certain non-GAAP financial measures. Management believes that the presentation of operating results using non-GAAP financial measures provides useful supplemental information to investors and facilitates the analysis of the Company's core operating results and comparison of core operating results across reporting periods. 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 these non-GAAP financial measures enable investors to evaluate the Company's 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 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 Adjusted EBITDA

"Adjusted EBITDA" is defined by NeoGenomics as net income (loss) from continuing operations before: (i) interest expense, (ii) tax expense, (iii) depreciation and amortization expense, (iv) non-cash stock-based compensation expense, and, if applicable in a reporting period, (v) acquisition and integration related expenses, (vi) non-cash impairments of intangible assets, (vii) and other significant non-recurring or non-operating (income) or expenses, including any debt financing costs.

The following is a reconciliation of GAAP net income (loss) to Non-GAAP EBITDA and Adjusted EBITDA for the three and nine months ended September 30, 2020:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in thousands)	**2020**	**2019**	**2020**	**2019**
Net income (loss) (GAAP)	$ 2,557	$ 2,143	$ (11,245)	$ 1,710
Adjustments to net income (loss):				
Interest expense, net	2,458	203	4,825	3,333
Income tax (benefit) expense	(335)	1,348	(10,378)	(500)
Amortization of intangibles	2,468	2,380	7,387	7,482
Depreciation	6,528	4,848	18,705	15,200
EBITDA (non-GAAP)	$ 13,676	$ 10,922	$ 9,294	$ 27,225
Further adjustments to EBITDA:				
Acquisition and integration related expenses	446	334	1,852	2,143
Other significant non-recurring income and expenses [(1)]	(105)	364	(2,100)	6,527
Non-cash stock-based compensation expense	2,715	3,275	7,536	7,727
Adjusted EBITDA (non-GAAP)	$ 16,732	$ 14,895	$ 16,582	$ 43,622

[(1)] Other significant non-recurring income and expenses includes grant income received related to the CARES Act, cash flow hedge termination fees, debt retirement fees and other non-recurring items.

Liquidity and Capital Resources

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

The following table presents a summary of our consolidated cash flows for operating, investing and financing activities for the nine months ended September 30, 2020 and 2019 as well balances of cash and cash equivalents and working capital:

(in thousands)	Nine Months Ended September 30, 2020	2019
Net cash (used in) provided by:		
Operating activities	$ (4,525)	$ 20,010
Investing activities	(130,587)	(13,554)
Financing activities	227,332	162,624
Net change in cash, cash equivalents and restricted cash	92,220	169,080
Cash, cash equivalents and restricted cash, beginning of period	$ 173,016	$ 9,811
Cash, cash equivalents and restricted cash, end of period	$ 265,236	$ 178,891
Working Capital [(1)], end of period	$ 357,763	$ 223,094

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

Cash Flows from Operating Activities

During the nine months ended September 30, 2020, we used $4.5 million in cash for operating activities compared to $20.0 million cash provided by operating activities for the same period in 2019. Cash used in operating activities in the nine months ended September 30, 2020 consisted of a net loss of $11.2 million , a decrease in net operating assets of $32.1 million, and a decrease in net operating liabilities of $9.3 million. The increase in cash used in operating activities was partially offset by net working capital adjustments of $48.1 million. Included in the net loss of $11.2 million was grant income of $7.9 million related to the CARES Act. The change in operating assets was primarily driven by an increase in accounts receivable due to an increases in revenue, an increase in funds distributed for the construction of the new headquarters facility, and an increase in inventory due to higher spend on materials to mitigate the risk of potential supply chain disruptions resulting from the COVID-19 pandemic, as well as inventory purchased to perform COVID-19 testing.

Cash Flows from Investing Activities

During the nine months ended September 30, 2020, cash used in investing activities was $130.6 million, an increase of approximately $117.0 million compared to the same period in 2019. This was primarily due to a net investment of $50.3 million in marketable securities, $37.0 million for the acquisition of the HLI - Oncology, the $25.0 million investment made in Inivata and $3.2 million of cash used for capital expenditures.

Cash Flows from Financing Activities

During the nine months ended September 30, 2020, cash provided by financing activities was $227.3 million compared to $162.6 million in the same period in 2019. Cash provided by financing activities during the nine months ended September 30, 2020 consisted of convertible debt proceeds of $194.5 million, net of deferred finance charges, proceeds from the equity offering of $127.3 million and $10.8 million for the net issuance of common stock. This activity was primarily offset by the use of cash in the amounts of $101.9 million for the net repayment of the term loan and other financing obligations and $3.3 million in cash flow hedge terminations fees.

Liquidity Outlook

On May 4, 2020, the Company completed the sale of $175.0 million of 1.25% Convertible Senior Notes due May 2025 (the "Convertible Notes"). And on May 19, 2020, the Underwriters of the Convertible Notes exercised their option to purchase an additional $26.3 million aggregate principal amount of the Convertible Notes (the "Over-allotment Option") on the same terms and conditions, solely to cover over-allotments with respect to the Convertible Notes offering. The total net proceeds from the issuance of the Convertible Notes and the total exercise of the Over-allotment Option was approximately $194.4 million, which includes approximately $6.9 million of discounts, commissions and offering expenses paid by the Company. For further details regarding the Convertible Notes, please refer to Note 8. Debt, in the accompanying notes to the consolidated financial statements.

In addition, in April 2020, the Company entered into an underwriting agreement relating to the issuance and sale of 4,400,000 shares of the Company's common stock ("Common Stock Offering"), $0.001 par value per share. The price to the public in this offering was $28.50 per share and the Company agreed to sell the shares to the Underwriters at the public offering price, less underwriting discounts and commission of $1.71 per share. Under the terms of the underwriting agreement, the Company also granted the Underwriters a 30-day option to purchase up to 660,000 additional shares of Common Stock at the public offering price, less underwriting discounts and commissions. In June 2020, closing took place on a partial exercise of the Underwriters' option and the Company issued the Underwriters an additional 351,500 shares. The net proceeds from the Common Stock

Offering and partial exercise of the Underwriters' option were approximately $127.3 million, net of underwriting commissions of approximately $8.1 million.

The Company used $96.3 million of the net proceeds from the offering of the Convertible Notes and the Common Stock Offering to repay all outstanding amounts, including principal, accrued interest and fees, under its Prior Senior Secured Credit Agreement with PNC Bank National Association and intends to use the remainder for general corporate purposes and may use a portion of the net proceeds to acquire or invest in complementary businesses and technologies.

We had $233.2 million in unrestricted cash and cash equivalents as of September 30, 2020. The Company had $50.4 million of marketable securities and considers all securities available-for-sale, including those with maturity dates beyond 12 months as they are available to support current operational liquidity needs. We believe that the cash on hand, marketable securities and cash collections 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.

Capital Expenditures

We currently forecast capital expenditures in order to execute on our business plan and maintain growth; however, the actual amount and timing of such capital expenditures will ultimately be determined by the volume of business. We currently anticipate that our cash payments for capital expenditures for the year ending December 31, 2020 will be in the range of $25 million to $30 million. During the nine months ended September 30, 2020, we purchased, with cash, approximately $17.6 million of capital equipment, software and leasehold improvements. We have historically funded and plan to continue funding these capital expenditures with financing obligations, 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.

Please refer to our critical accounting policies as disclosed in our Annual Report on Form 10-K for the year ended December 31, 2019 and Note 1. Nature of the Business, Basis of Presentation and Significant Accounting Policies and Note 2. Recently Adopted and Issued Accounting Guidance, in the accompanying notes to the consolidated financial statements, for additional information and changes to our critical accounting policies.

Off-balance Sheet Arrangements

On May 22, 2020, in conjunction with the Investment Agreement, the Company and Inivata entered into a five-year, line of credit agreement in the amount of $15.0 million. The amounts borrowed under the line of credit are contractually limited to the working capital purposes of Inivata, but not towards acquisitions of companies, businesses or undertakings. This line of credit has an availability period beginning on January 1, 2021 and ends one month prior to the final repayment date of January 1, 2026. The line of credit bears interest at 0% per annum and interest and unpaid principal balance is payable on the final repayment date. As of September 30, 2020, the Company believes it has sufficient funds to support the line of credit. Please refer to Note 14. Investment in Non-Consolidated Affiliate, in the accompanying notes to the consolidated financial statements, for additional information on our non-consolidated affiliate.

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 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 nine months ended September 30, 2020 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

None for the quarterly period ended September 30, 2020.

ITEM 1A. RISK FACTORS

The following risk factors are in addition to the risks described in the Company's Form 10-K under Item 1A, "Risk Factors" contained in our Annual Report on Form 10-K for the for the year ended December 31, 2019, as filed with the SEC on February 28, 2020, and as supplemented by the risks described in Part II, Item 1A. included in our Quarterly Reports on Form 10-Q for the quarters ended March 31, 2020 and June 30, 2020 as filed with the SEC on April 29, 2020 and July 31, 2020. The effects of the events and circumstances described in the following risk factors may heighten the risks contained in the Company's Form 10-K.

Our investments in marketable securities are subject to certain risks which could affect our overall financial condition, results of operations or cash flows

We invest a portion of our available cash and cash equivalent balances in money market funds or by purchasing marketable securities with maturities in excess of three months in a managed portfolio in a variety of debt securities, including U.S. Treasury securities and corporate debt securities. The primary objective of our investment activity is to maintain the safety of principal, provide for future liquidity requirements while maximizing yields without significantly increasing risk. Should any of our investments or marketable securities lose value or have their liquidity impaired, it could affect our overall financial condition. Additionally, should we choose or are required to sell these securities in the future at a loss, our consolidated operating results or cash flows may be affected.

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

Unregistered Sales of Equity Securities

None for the quarterly period ended September 30, 2020.

Issuer Purchases of Equity Securities

The following table sets forth information concerning our purchases of common stock for the periods indicated:

Period of Repurchase	Total Number of Shares Purchased[1]	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs
July 1, 2020 - July 31, 2020	21	$ 33.08	—	—
August 1, 2020 - August 31, 2020	6,010	38.24	—	—
September 1, 2020 - September 30, 2020	196	35.79	—	—
Total	6,227	$ 38.14	—	—

[1] The Company's Equity Incentive Plan, as amended on May 25, 2017, allows participants to surrender already-owned shares having a fair market value equal to the required withholding tax related to the vesting of restricted stock. Pursuant to a share withholding election made by participants in connection with the vesting of such awards, all of which were outside of a publicly-announced repurchase plan, we acquired from such participants the shares noted in the table above to satisfy tax withholding obligations related to the vesting of their restricted stock. The average prices listed in the above table are averages of the fair market prices at which we valued shares withheld for purposes of calculating the number of shares to be withheld.

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	Board of Directors Appointment Letter Agreement between Rachel A. Stahler and NeoGenomics, Inc. dated August 24, 2020
10.2	Board of Directors Appointment Letter Agreement between Michael A. Kelly and NeoGenomics, Inc. dated August 11, 2020
31.1	Certification by Principal Executive Officer pursuant to Rule 13a-14(a)/ 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification by Principal Financial Officer pursuant to Rule 13a-14(a)/ 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification by Principal Executive Officer and Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101	The following materials from the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2020, formatted in Inline Extensible Business Reporting Language (iXBRL): (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
104	The cover page of the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2020, formatted in iXBRL (included within Exhibit 101 attachments)

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: October 29, 2020

NEOGENOMICS, INC.

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

By:	*/s/ Kathryn B. McKenzie*
Name:	Kathryn B. McKenzie
Title:	Chief Financial Officer

Exhibit 10.1

August 11, 2020

Rachel A. Stahler

Re: NeoGenomics, Inc. Board, Audit and NCG Committee Appointments

Dear Rachel:

On behalf of the entire Board of Directors (the "**Board**") of NeoGenomics, Inc., a Nevada corporation (the "**Company**"), it is my sincere pleasure to provide this written confirmation of your appointment to the Company's Board of Directors, Audit and Finance Committee (the "**Audit Committee**"), and Nominating and Corporate Governance Committee (the "**NCG Committee**"), as approved by the Company's shareholders at its annual meeting held on May 28, 2020 (the "**Effective Date**").

In consideration for your service on the Board, Audit and NCG Committees, you will receive the following compensation:

- **Cash Fees**: Initially, your cash compensation will consist of $60,000, comprised of an annual retainer of $45,000 for Board membership, $10,000 for Audit Committee membership, and $5,000 for NCG Committee membership, paid in equal quarterly amounts at the end of each quarter for which you have provided service, as of the Effective Date.

- **Equity Grants**: You will receive an initial equity grant under the Company's Equity Incentive Plan valued at $110,000, as of the Effective Date, such initial equity grant to be comprised of 70% in restricted shares of the Company's common stock and 30% in stock options to purchase the Company's common stock (the "**Initial Equity Grant**"). The Initial Equity Grant will immediately vest on May 29, 2021. The stock options shall have an exercise price per share equal to the fair market value of the shares of the Company's common stock on the close of market prior to the initial option grant date of May 28, 2020 (the "**Initial Option Grant Date**"). In addition, you will be eligible to receive annual equity grants for continued Board service pursuant to the Company's then current outside director compensation policy.

The compensation set forth above is subject to change from time to time in the future as determined by the Compensation Committee of the Board.

The Company will reimburse you for all reasonable travel expenses that you incur in connection with your attendance at meetings of the Board and Audit Committee, in accordance with the Company's expense reimbursement policy in effect from time to time. In addition, you will receive indemnification as a director of the Company to the maximum extent extended to directors of the Company generally,

as set forth in the Company's certificate of incorporation, bylaws, an indemnification agreement between you and the Company (which will be provided to you separately and will be effective on the first date of your appointment), and any director and officer insurance the Company may have and maintain from time to time.

In accepting this appointment, you are representing to us that you (i) do not know of any conflict which would restrict your ability to serve on the Board or the Audit Committee, and (ii) will not provide the Company with any documents, records, or other confidential information in violation of the rights of other parties. You also agree to execute a non-disclosure agreement between you and the Company (which will be provided to you separately and will be effective on the first date of your appointment).

This letter sets forth the entire compensation you will receive for your service on the Board and the Audit and NCG Committees. Nothing in this letter should be construed as an offer of employment.

We believe that your appointment to the Board and Audit and NCG Committees will be of immense value to the Company. If the foregoing terms are agreeable, please indicate your acceptance by signing the letter in the space provided below and returning this letter to me.

Sincerely,
NEOGENOMICS, INC.

By: _____

Douglas M. VanOort
Chairman and Chief Executive Officer

Agreed and Accepted:

_____

Rachel A. Stahler
Date: August 24 , 2020

Exhibit 10.2

August 11, 2020

Michael A. Kelly

Re: NeoGenomics, Inc. Board and Audit Committee Appointments

Dear Michael:

On behalf of the entire Board of Directors (the "**Board**") of NeoGenomics, Inc., a Nevada corporation (the "**Company**"), it is my sincere pleasure to provide this written confirmation of your appointment to the Company's Board of Directors and Audit and Finance Committee (the "**Audit Committee**"), as approved by the Board at its July 15, 2020 meeting (the "**Effective Date**").

In consideration for your service on the Board and Audit Committee, you will receive the following compensation:

- **Cash Fees**: Initially, your cash compensation will consist of $55,000, comprised of an annual retainer of $45,000 for Board membership and $10,000 for Audit Committee membership, paid in equal quarterly amounts at the end of each quarter for which you have provided service, prorated from the Effective Date.

- **Equity Grants:** You will receive an initial equity grant under the Company's Equity Incentive Plan valued at $110,000, prorated from the Effective Date, such initial equity grant to be comprised of 70% in restricted shares of the Company's common stock and 30% in stock options to purchase the Company's common stock (the "**Initial Equity Grant**"). The Initial Equity Grant will immediately vest on May 29, 2021. The stock options shall have an exercise price per share equal to the fair market value of the shares of the Company's common stock on the close of market prior to the initial option grant date of July 30, 2020 (the "**Initial Option Grant Date**"). In addition, you will be eligible to receive annual equity grants for continued Board service pursuant to the Company's then current outside director compensation policy.

The compensation set forth above is subject to change from time to time in the future as determined by the Compensation Committee of the Board.

The Company will reimburse you for all reasonable travel expenses that you incur in connection with your attendance at meetings of the Board and Audit Committee, in accordance with the Company's expense reimbursement policy in effect from time to time. In addition, you will receive indemnification as a director of the Company to the maximum extent extended to directors of the Company generally,

as set forth in the Company's certificate of incorporation, bylaws, an indemnification agreement between you and the Company (which will be provided to you separately and will be effective on the first date of your appointment), and any director and officer insurance the Company may have and maintain from time to time.

In accepting this appointment, you are representing to us that you (i) do not know of any conflict which would restrict your ability to serve on the Board or the Audit Committee, and (ii) will not provide the Company with any documents, records, or other confidential information in violation of the rights of other parties. You also agree to execute a non-disclosure agreement between you and the Company (which will be provided to you separately and will be effective on the first date of your appointment).

This letter sets forth the entire compensation you will receive for your service on the Board and the Audit Committee. Nothing in this letter should be construed as an offer of employment.

We believe that your appointment to the Board and Audit Committee will be of immense value to the Company. If the foregoing terms are agreeable, please indicate your acceptance by signing the letter in the space provided below and returning this letter to me.

Sincerely,

NEOGENOMICS, INC.

By: _____

Douglas M. VanOort
Chairman and Chief Executive Officer

Agreed and Accepted:

_____

Michael A. Kelly

Date: August 11, 2020

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.

October 29, 2020

/s/ Douglas M. VanOort

Douglas M. VanOort

Chairman & Chief Executive Officer

EXHIBIT 31.2

CERTIFICATIONS

I, Kathryn B. McKenzie, 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.

October 29, 2020

/s/ Kathryn B. McKenzie

Kathryn B. McKenzie

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 or her 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: October 29, 2020

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

Date: October 29, 2020

/s/ *Kathryn B. McKenzie*
Kathryn B. McKenzie
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.