NEOGENOMICS INC
Form 10-Q
August 06, 2018

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

FORM 10-Q

(Mark One)
QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2018
or
TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission File Number: 001-35756
NEOGENOMICS, INC.
(Exact name of registrant as specified in its charter)

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

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

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

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

Large accelerated filer	Accelerated filer
Non-accelerated filer	Smaller Reporting Company
(Do not check if a smaller reporting company)	Emerging Growth Company

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

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

As of August 1, 2018, the registrant had 81,639,406 shares of Common Stock, par value $0.001 per share outstanding.

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FORWARD-LOOKING STATEMENTS

The information in this Quarterly Report on Form 10-Q contains "forward-looking statements" and information within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act") relating to NeoGenomics, Inc., a Nevada corporation and its subsidiaries, NeoGenomics Laboratories, Inc., a Florida corporation ("NEO", "NeoGenomics Laboratories"), NeoGenomics Bioinformatics Inc., a Florida corporation, and Clarient, Inc., a Delaware corporation and its wholly owned subsidiary, Clarient Diagnostic Services, Inc. (together "Clarient") (collectively referred to as "we", "us", "our", "NeoGenomics", or the "Company"), which are subject to the "safe harbor" created by those sections. These forward-looking statements include, but are not limited to, statements concerning our strategy, future operations, future financial position, future revenues, projected costs, prospects and plans and objectives of management. The words "anticipates", "believes", "estimates", "expects", "intends", "may", "plans", "projects", "will", "would" and similar expr intended to identify forward-looking statements, although not all forward-looking statements contain these identifying words. We may not actually achieve the plans, intentions or expectations disclosed in our forward-looking statements and you should not place undue reliance on our forward-looking statements. These forward-looking statements involve known and unknown risks and uncertainties that could cause our actual results, performance or achievements to differ materially from those expressed or implied by the forward-looking statements, including, without limitation, the risks set forth under "Risk Factors" and in Part I, Item 1A, "Risk Factors" contained in our Annual Report on Form 10-K as filed with the SEC on March 13, 2018.

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

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

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

actual results to differ materially from those contained in any forward-looking statements.

PART I — FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS
NEOGENOMICS, INC.
CONSOLIDATED BALANCE SHEETS
(in thousands, except share and per share amounts)
(unaudited)

ASSETS	June 30, 2018	December 31, 2017 (as adjusted)
Current assets		
Cash and cash equivalents	$9,435	$12,821
Accounts receivable	60,765	60,427
Inventories	6,898	7,474
Other current assets	6,161	5,153
Total current assets	83,259	85,875
Property and equipment (net of accumulated depreciation of $45,678 and $40,530, respectively)	42,873	36,504
Intangible assets, net	71,330	74,165
Goodwill	147,019	147,019
Other assets	1,302	891
Total assets	$345,783	$344,454
LIABILITIES, REDEEMABLE CONVERTIBLE PREFERRED STOCK AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	12,337	10,450
Accrued compensation	11,184	9,482
Accrued expenses and other liabilities	9,889	6,144
Short-term portion of capital leases and car loans	5,847	5,239
Short-term portion of loans	6,562	3,750
Pharma contract liability	2,155	1,406
Total current liabilities	$47,974	$36,471
Long-term liabilities		
Long-term portion of capital leases and car loans	5,414	5,303
Long-term portion of loans, net	91,535	66,616
Revolving credit facility, net	29,176	24,516
Long-term pharma contract liability	648	283
Deferred income tax liability, net	6,827	6,688
Total long-term liabilities	133,600	103,406
Total liabilities	181,574	139,877
Commitments and contingencies - see Note I		
Redeemable convertible preferred stock		
Series A Redeemable Convertible Preferred Stock, $0.001 par value, (50,000,000 shares authorized; 0 and 6,864,000 shares issued and outstanding)	—	32,615
Stockholders' equity		
Common stock, $0.001 par value, (250,000,000 shares authorized; 81,632,045 and 80,462,574 shares issued and outstanding, respectively)	81	80
Additional paid-in capital	217,451	230,030
Accumulated other comprehensive income	257	274

Accumulated deficit	(53,580)	(58,422)
Total stockholders' equity	164,209	171,962
Total liabilities, redeemable convertible preferred stock and stockholders' equity	$345,783	$344,454

See notes to unaudited consolidated financial statements.

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2018	2017 (as adjusted)	2018	2017 (as adjusted)
NET REVENUE				
Clinical Services	$59,540	$55,547	$116,511	$108,455
Pharma Services	8,206	6,717	14,658	11,238
Total Revenue	67,746	62,264	131,169	119,693
COST OF REVENUE	37,216	34,912	73,336	69,392
GROSS PROFIT	30,530	27,352	57,833	50,301
Operating expenses:				
General and administrative	20,983	18,432	38,050	35,450
Research and development	1,073	947	2,029	1,809
Sales and marketing	7,680	6,132	14,455	11,779
Total operating expenses	29,736	25,511	54,534	49,038
INCOME FROM OPERATIONS	794	1,841	3,299	1,263
Interest expense, net	1,407	1,411	2,892	2,775
Other expense	124	—	62	—
Income (loss) before taxes	(737)	430	345	(1,512)
Income tax expense (benefit)	(357)	(53)	81	(832)
NET INCOME (LOSS)	(380)	483	264	(680)
Deemed dividends on preferred stock	947	929	1,950	1,822
Amortization of preferred stock beneficial conversion feature	1,824	1,710	3,677	3,383
Gain on redemption of preferred stock	(9,075)	—	(9,075)	—
NET INCOME (LOSS) ATTRIBUTABLE TO COMMON STOCKHOLDERS	$5,924	$(2,156)	$3,712	$(5,885)
INCOME (LOSS) PER SHARE ATTRIBUTABLE TO COMMON STOCKHOLDERS				
Basic	$0.07	$(0.03)	$0.05	$(0.07)
Diluted	$0.07	$(0.03)	$0.04	$(0.07)
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:				
Basic	81,017	79,413	80,789	79,075
Diluted	90,168	79,413	89,305	79,075

See notes to unaudited consolidated financial statements.

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2018	2017 (as adjusted)	2018	2017 (as adjusted)
NET INCOME(LOSS)	$(380)	$ 483	$264	$ (680)
OTHER COMPREHENSIVE INCOME, NET OF TAX:				
Foreign currency translation adjustments	6	—	(22)	—
Gain (loss) on effective cash flow hedge	(266)	—	5	—
Total other comprehensive (loss), net of tax	(260)	—	(17)	—
COMPREHENSIVE INCOME (LOSS)	$(640)	$ 483	$247	$ (680)

See notes to unaudited consolidated financial statements.

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

	For the Six Months Ended June 30,	
CASH FLOWS FROM OPERATING ACTIVITIES	2018	2017 (as adjusted)
Net income (loss)	$264	$(680)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation	7,444	7,906
Amortization of intangibles	2,834	3,450
Amortization of debt issue costs	242	219
Loss on disposal of assets	106	—
Non-cash stock based compensation	3,957	3,052
Changes in assets and liabilities, net:		
(Increase) in accounts receivable, net of write-offs	(338)	(6,255)
Decrease in inventories	576	796
(Increase) in prepaid expenses	(2,198)	(720)
(Increase) in other current assets	(977)	(129)
Increase (decrease) in accounts payable, accrued and other liabilities	9,042	(2,797)
Net cash provided by operating activities	20,952	4,842
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(8,943)	(7,864)
Net cash used in investing activities	(8,943)	(7,864)
CASH FLOWS FROM FINANCING ACTIVITIES		
Advances from revolving credit facility, net	10,000	4,997
Redemption of preferred stock	(50,096)	—
Repayment of capital lease obligations, loans	(3,014)	(2,754)
Repayment of term loan and revolving credit facility	(7,275)	(1,878)
Issuance of common stock	5,588	1,176
Proceeds from term loan	30,000	—
Payments of debt issue costs	(576)	(112)
Net cash (used in) provided by financing activities	(15,373)	1,429
Effects of foreign exchange rate changes on cash and cash equivalents	(22)	—
Net change in cash and cash equivalents	(3,386)	(1,593)
Cash and cash equivalents, beginning of period	12,821	12,525
Cash and cash equivalents, end of period	$9,435	$10,932
Supplemental disclosure of cash flow information:		
Interest paid	$2,703	$2,573
Income taxes paid	$49	$102
Supplemental disclosure of non-cash investing and financing information:		
Equipment acquired under capital lease/loan obligations	$3,733	$2,557

See notes to unaudited consolidated financial statements.

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NEOGENOMICS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Unaudited

Note A – Nature of Business and Basis of Presentation

NeoGenomics, Inc., a Nevada corporation (the "Parent" or the "Parent Company"), and its subsidiaries, NeoGenomics Laboratories, Inc., a Florida corporation ("NeoGenomics Laboratories"), Clarient Inc. and its wholly-owned subsidiary Clarient Diagnostic Services, Inc. ("Clarient"), NeoGenomics Bioinformatics, Inc., NeoGenomics Europe, SA, and NeoGenomics Singapore, Pte. Ltd. (collectively referred to as "we", "us", "our", "NeoGenomics", or the "Company"), operates as a certified "high complexity" clinical laboratory in accordance with the federal government's Clinical Laboratory Improvement Act, as amended ("CLIA"), and is dedicated to the delivery of clinical diagnostic services to pathologists, oncologists, urologists, hospitals, and other laboratories as well as providing clinical trial services to pharmaceutical firms.
The accompanying interim consolidated financial statements are unaudited and have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information. These accompanying consolidated financial statements include the accounts of the Parent and its subsidiaries. All intercompany transactions and balances have been eliminated in the accompanying consolidated financial statements. Certain information and footnote disclosures normally included in the Company's annual audited consolidated financial statements and accompanying notes have been condensed or omitted in these accompanying interim consolidated financial statements. Accordingly, the accompanying interim consolidated financial statements included herein should be read in conjunction with the audited consolidated financial statements and accompanying notes included in the Company's annual report on Form 10-K for the year ended December 31, 2017, filed with the SEC on March 13, 2018. The year-end consolidated balance sheet data was derived from the audited consolidated financial statements as of December 31, 2017, but does not include all the disclosures required by accounting principles.
The results of operations presented in this quarterly report on Form 10-Q are not necessarily indicative of the results of operations that may be expected for any future periods. In the opinion of management, these unaudited consolidated financial statements include all adjustments and accruals, consisting only of normal, recurring adjustments that are necessary for a fair statement of the results of all interim periods reported herein.

The Company reports its activities in two operating segments; the Clinical Services Segment and the Pharma Services Segment. These reportable segments deliver testing services to hospitals, pathologists, oncologists, clinicians, pharmaceutical firms and researchers and represent 100% of the Company's consolidated assets, net revenues and net income (loss) for each period ended June 30, 2018 and December 31, 2017. For further financial information about these segments see Note K.

Reclassifications

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

Adopted

In June 2018, the FASB issued ASU 2018-07, Compensation - Stock Compensation. This standard expands the scope of current stock compensation recognition standards to include share-based payment transactions for acquiring goods and services from nonemployees. ASU 2018-07 is effective for fiscal years beginning after December 15, 2018, including interim periods within that fiscal year, with early adoption permitted. The Company early adopted this ASU

on April 1, 2018. The adoption of this standard substantially aligned the accounting for share based payments to employees and nonemployees. Under the new standard, the Company recorded a cumulative adjustment of $1.1 million to increase retained earnings and decrease APIC.

In August 2017, the FASB issued ASU 2017-12, Derivatives and Hedging. This standard refines hedge accounting to better align an entity's risk management activities and financial reporting for hedging relationships through changes to both the designation and measurement guidance for qualifying hedging relationships and the presentation of hedge results. The amended guidance also expands items eligible for hedge accounting and simplifies the hedge effectiveness testing. ASU 2017-12 is effective for annual periods beginning after December 15, 2018 and interim periods within those annual periods. Early adoption is permitted. The

NEOGENOMICS, INC.
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Company early adopted this standard on April 1, 2018 and applied this guidance to the cash flow hedge entered into in June 2018. See Note F. The adoption of ASU 2017-12 did not have a material effect on its consolidated financial statements.

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

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

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

Clinical Services Revenue

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

Pharma Services Revenue

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

ASC 606 Adoption Impact to Previously Reported Results

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

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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	December 31, 2017		
	As Reported	Impact of Adoption	As Adjusted
Other current assets	$4,241	$ 912	$5,153
Other assets	689	202	891
Total Assets	$343,340	$ 1,114	$344,454
Pharma contract liability	$—	$ 1,406	$1,406
Long-term pharma contract liability	—	283	283
Deferred income tax liability, net	6,307	381	6,688
Stockholders' Equity	172,918	(956)	171,962
Total Liabilities and Stockholders' Equity	$343,340	$ 1,114	$344,454

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

	For the Three Months Ended June 30, 2017			For the Six Months Ended June 30, 2017		
	As Reported	Impact of Adoption	As Adjusted	As Reported	Impact of Adoption	As Adjusted
Net Revenue						
Clinical Services	$59,791	$(4,244)	$55,547	$116,482	$(8,027)	$108,455
Pharma Services	6,299	418	6,717	11,285	(47)	11,238
Total Revenue	$66,090	$(3,826)	$62,264	$127,767	$(8,074)	$119,693
Gross Profit	$31,178	$(3,826)	$27,352	$58,374	$(8,073)	$50,301
Total operating expenses (1)	$29,864	$(4,353)	$25,511	$57,175	$(8,137)	$49,038
Income from Operations	1,314	527	1,841	1,199	64	1,263
Interest expense	1,411	—	1,411	2,775	—	2,775
Income tax (benefit) expense	(54)	1	(53)	(879)	47	(832)
Net Income (Loss)	$(43)	$ 526	$483	$(697)	$ 17	(680)

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

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

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

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In February 2016, the FASB issued ASU 2016-02, Leases. The update was issued to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities, including for operating leases, on the balance sheet and disclosing key information about leasing arrangements. ASU 2016-02 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. The adoption of this ASU will result in an increase on the balance sheet for lease liabilities and right to use assets. The Company is currently evaluating the quantitative impact that adopting ASU 2016-02 will have on its consolidated financial statements and assessing any changes to its processes and controls.

Note C – Revenue Recognition and Contractual Adjustments

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

Clinical Services Revenue

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

Pharma Services Revenue

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

Amounts collected in advance of services being provided are deferred as contract liabilities on the balance sheet. The associated revenue is recognized and the contract liability is reduced as the contracted services are subsequently performed. Contract assets are established for revenue that has been recognized but not yet billed. These contract

assets are reduced once the customer is invoiced and a corresponding account receivable is recorded. Additionally, certain costs to obtain contracts, primarily for sales commissions, are capitalized when incurred and are amortized over the term of the contract. Amounts capitalized for contracts with an initial contract term of twelve months or less are classified as current assets and all others are classified as non-current assets.

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

NEOGENOMICS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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The following table summarizes the values of contract assets, capitalized commissions and contract liabilities as of June 30, 2018 and December 31, 2017 (in thousands):

	June 30, 2018	December 31, 2017
Current pharma contract asset	$400	$ 541
Long-term pharma contract asset	29	31
Total pharma contract asset	$429	$ 572
Current pharma capitalized commissions	$264	$ 371
Long-term pharma capitalized commissions	574	171
Total pharma capitalized commissions	$838	$ 542
Current pharma contract liability	$2,155	$ 1,406
Long-term pharma contract liability	648	283
Total pharma contract liability	$2,803	$ 1,689

There were no significant changes in the contract assets for the period ended June 30, 2018 as compared to the balances at December 31, 2017. Pharma contract liabilities increased $1.1 million, or 66%, from December 31, 2017 while capitalized commissions also increased by $0.3 million or 55%. These increases are due to higher upfront fees driven by increases in the volume of Pharma contracts in process. Revenue recognized for the three and six months ended June 30, 2018 related to pharma contract liability balances outstanding at the beginning of the period was $0.3 million and $1.3 million, respectively. Amortization of capitalized commissions for the three and six months ended June 30, 2018 were $0.3 million and $0.4 million, respectively.

The amount of existing performance obligations under long-term contracts, as defined by ASC 606, which were unsatisfied as of June 30, 2018, was $63.7 million. We expect to recognize approximately 40-45% of these remaining performance obligations as revenue in the next 12 months and the balance thereafter. The Company applied the practical expedient and does not disclose information about remaining performance obligations that have original expected durations of one year or less. The unsatisfied existing performance obligations under long-term contracts as defined by ASC 606 differs from backlog in that it does not include wholly unperformed contracts where the promised consideration is variable and/or the application of other practical expedients.

Disaggregation of Revenue

The Company considered various factors for both its Clinical Services and Pharma Services segments in determining appropriate levels of homogenous data for its disaggregation of revenue, including the nature, amount, timing and uncertainty of revenue and cash flows. For Clinical Services, the categories identified align with our type of customer due to similarities of billing method, level of reimbursement and timing of cash receipts at this level. Pharma Services revenue was not further disaggregated as substantially all of our revenue relates to contracts with large pharmaceutical and biotech customers as well as other CROs for which the nature, timing and uncertainty of revenue and cash flows is similar and primarily driven by individual contract terms.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Clinical Services:				
Client direct billing	$40,847	$36,796	$79,561	$70,427

Commercial Insurance	8,981	10,124	18,922	21,560
Medicare and Medicaid	9,024	8,403	17,201	16,221
Self-Pay	688	224	827	247
Total Clinical Services	$59,540	$55,547	$116,511	$108,455
Pharma Services:	8,206	6,717	14,658	11,238
Total Revenue	$67,746	$62,264	$131,169	$119,693

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Note D – Goodwill and Intangible Assets

Goodwill as of June 30, 2018 and December 31, 2017 was $147.0 million. There were no changes in the carrying amount of goodwill during these periods.

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

		June 30, 2018		
	Amortization Period	Cost	Accumulated Amortization	Net
Customer Relationships	156 - 180 months	$85,068	$ 13,753	$71,315
Non-Compete Agreement	36 months	26	11	15
Total		$85,094	$ 13,764	$71,330

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

We recorded approximately $1.4 and $1.7 million in straight-line amortization expense of intangible assets for the three month periods ended June 30, 2018 and 2017, respectively. We recorded approximately $2.8 and $3.5 million in straight-line amortization expense of intangible assets for the six month periods ended June 30, 2018 and 2017, respectively. The Company records amortization expense as a general and administrative expense.

The estimated amortization expense related to amortizable intangible assets for each of the five succeeding fiscal years and thereafter as of June 30, 2018 is as follows (in thousands):

Remainder of 2018	$2,842
2019	5,680
2020	5,671
2021	5,671
2022	5,671
Thereafter	45,795
Total	$71,330

Note E – Debt

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

	June 30, 2018	December 31, 2017
Term Loan Facility	$99,375	$ 71,250
Revolving Credit Facility	30,000	25,400
Capital leases and car loans	11,261	10,542
Total Debt	$140,636	$ 107,192
Less: Debt issuance costs	(2,102)	(1,768)
Less: Current portion of long-term debt	(12,409)	(8,989)

Total Long-Term Debt, net	$126,125	$ 96,435

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

Term Loan

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

On June 30, 2018 and December 31, 2017, the Company had current outstanding borrowings under the Term Loan, as amended, of approximately $6.6 million and $3.8 million and long-term outstanding borrowings of approximately $91.5 million and $66.6 million, net of unamortized debt issuance costs of $1.3 million and $0.9 million, respectively. The debt issuance costs were recorded as a reduction in the carrying amount of the related liability and are being amortized over the life of the loan.

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

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

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

Credit Facility at any time without penalty.

Revolving Credit Facility

On December 22, 2016, the Company entered into a Credit Agreement with Regions Bank as administrative agent and collateral agent. The Credit Agreement provided for a $75 million revolving credit facility (the "Revolving Facility"). On June 30, 2018, and December 31, 2017, the Company had outstanding borrowings of approximately $29.2 million and $24.5 million, net of unamortized debt issuance costs of $0.8 million and $0.9 million