

NEOGENOMICS INC
Form 10-Q
May 10, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2016.

or

£ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number: 001-35756

NEOGENOMICS, INC.

(Exact name of registrant as specified in its charter)

Nevada
(State or other jurisdiction of
incorporation or organization)

74-2897368
(I.R.S. Employer
Identification No.)

12701 Commonwealth Drive, Suite 9, Fort Myers,
Florida
(Address of principal executive offices)

33913
(Zip Code)

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(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 R 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 R No £

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

Large accelerated filer

Accelerated filer

R

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

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

As of April 20, 2016, the registrant had 77,117,678 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” or the “Subsidiary”), Path Labs LLC, a Delaware limited liability company (“PathLogic”) and Clariant, Inc. a Delaware Corporation and its wholly owned subsidiaries Clariant Diagnostic Services, Inc. (together “Clariant”) (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,” “would” and similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain these identifying words. We may not actually achieve the plans, intentions or expectations disclosed in our forward-looking statements and you should not place undue reliance on our forward-looking statements. These forward-looking statements involve known and unknown risks and uncertainties that could cause our actual results, performance or achievements to differ materially from those expressed or implied by the forward-looking statements, including, without limitation, the risks set forth under “Risk Factors” and in Part I, Item 1A, “Risk Factors” in our Annual Report on Form 10-K as filed with the Securities and Exchange Commission (the “SEC”) on March 15, 2016, and amended on April 18, 2016.

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

- Our ability to implement our business strategy;
- The expected reimbursement levels from governmental payers and private insurers and proposed changes to those levels, including the application of the Protecting Access to Medicare Act.
- 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 increasing downward pressure on health care reimbursement;
- Our ability to maintain our license under the Clinical Laboratory Improvement Amendments of 1988;
- Food and Drug Administration proposed regulation of Laboratory Developed Tests (“LDT”s);
- Failure to timely or accurately bill for our services;
- Our ability to expand our operations and increase our market share;
- Our ability to expand our service offerings by adding new testing capabilities;
- Our ability to meet our future capital requirements;
- Our ability to integrate acquired businesses, including our acquisition of Clariant, Inc. and costs related to such acquisitions;
- The impact of internalization of testing by customers;
- Our ability to compete with other diagnostic laboratories;
- Our ability to hire and retain sufficient managerial, sales, clinical and other personnel to meet our needs;
- Our ability to successfully scale our business, including expanding our facilities, our backup systems and infrastructure;
- Our ability to generate sufficient cash flow from our license agreement with Health Discovery Corporation to support its fair value; and
- The accuracy of our estimates regarding reimbursement, expenses, future revenues and capital requirements.

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)

	March 31, 2016	December 31, 2015
ASSETS		
Current assets		
Cash and cash equivalents	\$ 19,256	\$ 23,420
Accounts receivable (net of allowance for doubtful accounts of \$7,343 and \$4,759, respectively)	50,088	48,943
Inventories	5,334	5,108
Other current assets	6,525	4,889
Total current assets	81,203	82,360
Property and equipment (net of accumulated depreciation of \$30,135 and \$26,534, respectively)	33,559	34,577
Intangible assets, net	85,774	87,800
Goodwill	146,179	146,421
Other assets	129	129
Total assets	\$ 346,844	\$ 351,287
LIABILITIES, REDEEMABLE CONVERTIBLE PREFERRED STOCK AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$ 15,288	\$ 12,464
Accrued compensation	9,185	6,217
Accrued expenses and other liabilities	4,980	7,374
Revolving credit facility, net	—	8,869
Short-term portion of capital leases	4,267	4,534
Short-term portion of loans	596	600
Total current liabilities	34,316	40,058
Long-term liabilities		
Long-term portion of capital leases	4,124	5,040
Long-term portion of loans, net	52,316	52,336

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Deferred income tax liability, net	15,916	15,741
Total long-term liabilities	72,356	73,117
Total liabilities	106,672	113,175
Commitments and contingencies - see Note I		
Redeemable convertible preferred stock:		
Series A Redeemable Convertible Preferred Stock, \$0.01 par value, (50,000,000 shares authorized; and 14,666,667 shares issued and outstanding, respectively)	34,169	28,602
Stockholders' equity		
Common stock, \$.001 par value, (250,000,000 shares authorized; 77,033,608 and 75,820,307 shares issued and outstanding, respectively)	77	76
Additional paid-in capital	233,401	231,375
Accumulated deficit	(27,475)	(21,941)
Total stockholders' equity	206,003	209,510
Total liabilities, redeemable convertible preferred stock and stockholders' equity	\$346,844	\$351,287
See notes to unaudited consolidated financial statements		

NEOGENOMICS, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share amounts)

(unaudited)

	For the Three Months Ended	
	March 31,	
	2016	2015
NET REVENUE		
Clinical testing revenue	\$54,622	\$22,839
BioPharma & research revenue	5,082	187
Total Revenue, net	59,704	23,026
COST OF REVENUE	32,531	13,482
GROSS MARGIN	27,173	9,544
Operating expenses:		
General and administrative	18,005	6,522
Research and development	1,446	669
Sales and marketing	5,800	2,914
Total Operating Expenses	25,251	10,105
INCOME (LOSS) FROM OPERATIONS	1,922	(561)
Interest expense, net	1,593	195
Income (loss) before taxes	329	(756)
Income tax expense	174	5
NET INCOME (LOSS)	155	(761)
Deemed dividends on preferred stock	1,840	—
Amortization of preferred stock beneficial conversion feature	3,727	—
NET LOSS ATTRIBUTABLE TO COMMON STOCKHOLDERS	\$(5,412)	\$(761)
NET LOSS PER SHARE ATTRIBUTABLE TO COMMON STOCKHOLDERS		
Basic	\$(0.07)	\$(0.01)
Diluted	\$(0.07)	\$(0.01)
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:		
Basic	76,068	60,277
Diluted	76,068	60,277

See notes to unaudited consolidated financial statements.

NEOGENOMICS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

	For the three months ended March 31,	
	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	\$ 155	\$(761)
Adjustments to reconcile net income (loss) to net cash provided by (used in)		
operating activities, net of business acquisition:		
Depreciation	3,585	1,586
Amortization of intangibles	2,026	93
Amortization of debt issue costs	182	-
Stock based compensation – options, restricted stock and warrants	703	401
Provision for bad debts	2,663	602
Changes in assets and liabilities, net of business acquisition:		
(Increase) in accounts receivable, net of write-offs	(3,809)	(1,610)
(Increase) decrease in inventories	(225)	21
Decrease (increase) in prepaid expenses	(401)	(42)
Decrease in other current assets	—	1
(Decrease) in accounts payable and other liabilities	2,180	(1,078)
Net cash provided by (used in) operating activities	7,059	(787)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(1,001)	(842)
Net cash used in investing activities	(1,001)	(842)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of revolving credit facility	(10,044)	—
Repayment of capital lease obligations/loans	(1,379)	(921)
Issuance of common stock for the exercise of options, warrants and		
ESPP shares, net of transaction expenses	1,201	109