Intermec, Inc.
Form 10-K
March 16, 2006

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2005

OR

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

Commission file number 001-13279

Intermec, Inc.

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	**95-4647021** (I.R.S. Employer Identification No.)
6001 36th Avenue West **Everett, Washington** **www.intermec.com** (Address of principal executive offices)	**98203-1264** (Zip Code)

Registrant s telephone number, including area code: **(425) 265-2400**

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

Title of each class	Name of each exchange on which registered
Common Stock, par value $0.01 per share	New York Stock Exchange
Rights to Purchase Series A Junior Participating Preferred Stock	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No o

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act. Yes o No x

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 x No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

Indicate by check mark whether the registrant is large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange

Large Accelerated Filer x	Accelerated Filer o	Non-accelerated filer o

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

As of July 1, 2005, which was the last business day of the registrant s most recent second fiscal quarter, the aggregate market value of the registrant s common stock held by non-affiliates of the registrant was approximately $1.6 billion, based on the closing sale price as reported on the New York Stock Exchange.

On February 28, 2006, there were 62,985,306 shares of Common Stock outstanding, exclusive of treasury shares.

Documents Incorporated by Reference

Certain information required to be reported in Part III of this Annual report on From 10-K is herein incorporated by reference from the registrant s Definitive Proxy Statement to be filed with the Securities and Exchange Commission with respect to the registrant s Annual Meeting of Shareholders scheduled to be held on May 17, 2006.

INTERMEC, INC.

INDEX TO ANNUAL REPORT

ON FORM 10-K

PART I

SAFE HARBOR

Forward-looking statements contained in this filing are subject to the safe harbor created by the Private Securities Litigation Reform Act of 1995 (alternatively: Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934) and are dependent upon a variety of important factors that could cause actual results to differ materially from those reflected in such forward-looking statements. These factors include but are not limited to Intermec s ability to maintain or to improve the revenues and profits of its continuing operations, maintain or reduce expenses, maintain or improve operational efficiency, use its investment in research and development to generate future revenue, maintain or improve year-over-year growth in the revenues and profits of its continuing operations, estimates of financial impact of discontinued operations and the other factors described in Item 1A and Item 7 of this filing. Such forward-looking statements involve and are dependent upon certain risks and uncertainties. When used in this document and in documents it references, the words anticipate, believe, will, intend, project and expect and similar expressions relate to Intermec or its management are intended to identify such forward-looking statements.

Forward-looking statements are not guarantees of future performance. A number of factors can impact Intermec s business and determine whether Intermec can or will achieve any forward-looking statement made in this report. Any one of those factors could cause Intermec s actual results to differ materially from those discussed in a forward-looking statement. Intermec outlines these risk factors in reports that it files with the SEC, in press releases and on its website, *www.intermec.com.* Readers of this report are encouraged to review the Risk Factors portions of Item 1A and Item 7 of this filing which discuss risk factors associated with the Intermec s business. Intermec undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events, changed circumstances or any other event or circumstance occurring after the date of this annual report.

ITEM 1. BUSINESS

General

Effective January 1, 2006, Intermec changed its name from UNOVA, Inc. to Intermec, Inc. (Intermec or the Company). Intermec became an independent public company upon the distribution of its common stock to the shareholders of Western Atlas Inc. on October 31, 1997. Intermec is a Delaware corporation and its headquarters are located in Everett, Washington and its major offices and manufacturing facilities are located in the states of Washington, Iowa, and Ohio and internationally in the United Kingdom, the Netherlands, Sweden, France, Canada, Mexico and Singapore.

Information on Intermec may be found at the Internet website *www.intermec.com*. Intermec s annual reports on Form 10-K and certain of its other filings with the Securities and Exchange Commission (SEC) are available in PDF format through its Investor Relations website at *www.intermec.com/IntermecInc/investorinfo.asp*.. Its annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports are also available on the SEC website at *www.sec.gov*. The contents of these websites are not incorporated by reference into this report or in any other report or document Intermec files and its references to the addresses of these websites are intended to be inactive textual references only. Shareholders may request a free copy of the annual reports on Form 10-K and quarterly reports on Form 10-Q from:

Intermec, Inc.
Attention: Investor Relations
6001 36th Avenue West
Everett, WA 98203-1264

1

ITEM 1. BUSINESS (Continued)

Continuing Operations

Intermec designs, develops, manufactures, integrates, sells, resells and services wired and wireless automated identification and data collection (AIDC) products and systems, mobile computing products and systems, wired and wireless bar code printers, label media and RFID (radio frequency identification) products and systems. Intermec s products and services are used by customers within and outside of the United States to improve the productivity, quality and responsiveness of their business operations including supply chain management, enterprise resource planning and field sales and service. Intermec s products and services are sold to customers within and outside of the United States in market segments that include manufacturing, warehousing, direct store delivery, retail, consumer packaged goods, field service, government, and transportation and logistics.

Intermec has three primary revenue sources: (1) revenue from the design, development, manufacture, sale, resale and integration of wired and wireless AIDC products and systems, mobile computing products and systems, wired and wireless bar code printers, label media, RFID products and systems and license fees; (2) revenue from customer support, product maintenance and other services related to the products and systems described above; and (3) revenue from settlements related to enforcement of Intermec s intellectual property rights and sales of certain patents in Intermec s intellectual property portfolio. For the years ended December 31, 2005, 2004 and 2003, Intermec reported $721.0 million, $654.9 million and $561.4 million of product revenues and $154.5 million, $136.8 million and $126.5 million of service revenues, respectively. Intellectual property settlement revenues were $19.6 million and $18.7 million for the years ended December 31, 2004 and 2003, respectively.

Discontinued Operations

In 2005, Intermec divested its Industrial Automation Systems (IAS) businesses, which comprised the Cincinnati Lamb and Landis Grinding Systems divisions. The IAS businesses are classified as discontinued operations for accounting purposes in Intermec s consolidated financial statements and related notes. The IAS businesses are producers of manufacturing products and services, including integrated manufacturing systems, machining systems, stand-alone machine tools and precision grinding and abrasives operations primarily serving the global aerospace, automotive, off-road vehicle and diesel engine industries as well as the industrial components, heavy equipment and general job shop markets.

Products and Services

Intermec products include wired and wireless AIDC products and systems: mobile computing products and systems, wired and wireless barcode printers, label media, RFID products and systems and related services. These products and services allow customers to identify, track and manage their assets and other resources and improve the efficiency and effectiveness of their business operations.

Products

Bar Code Scanners and Systems

Intermec s bar code scanning products include wireless handheld computers and terminals, linear and area imagers incorporating active pixel technology, and badge and laser scanners and related systems. These products are able to read or collect data and move that data directly into standard enterprise resource planning (ERP) systems, warehouse management system (WMS), order fulfillment, transportation, logistics and other business applications. Intermec also manufactures industrial handheld computers for use in warehouses and industrial environments. These products are used primarily by non-office workers such as warehouse, delivery, manufacturing and field service workers, and other employees who operate outside the typical office environment. Intermec s bar code scanning products and systems are typically

ITEM 1. BUSINESS (Continued)

used for workforce automation: tracking of work-in-process and finished-goods inventory through manufacturing, distribution and other commercial operations, total asset visibility, and real-time monitoring of inventory levels and order status. AIDC products of the type sold by Intermec replace manual data collection systems that are more susceptible to errors or omissions due to inaccurate keystrokes, illegible handwriting or overlooked transactions.

Enterprise Wireless Networks Products and Services

Intermec was one of the first companies to provide a network architecture that allows customers to use multiple radio technologies within one Local Area Network (LAN) system. Starting in the early 1980s, Intermec installed digital communication systems that linked mobile computers and host servers within industrial workspaces such as warehouses, distribution centers, factories and large outdoor facilities. In 1998, the Institute for Electronic and Electrical Engineering (IEEE) promulgated a new standard for high-speed network communication via wireless radio signal. The 802.11b standard allows customers to purchase interoperable digital radios for client computing devices.

In the years since the 802.11b standard was established, several large network equipment vendors have begun selling 802.11b and 802.11a/b and 802.11g wireless LAN systems, increasing penetration for this technology among office workers and in public spaces such as hotels, restaurants and airports. Intermec is a Solutions Technology Integrator partner with Cisco Systems Inc. and has extended its systems and devices to include Cisco technology and products. Intermec develops wireless LAN software and services that enable its AIDC products to work seamlessly across a Cisco network. Intermec s device management software allows centralized management of wireless Intermec products on the network.

Intermec s wireless AIDC products include all major radio technologies, including synthesized UHF, 900 MHz, 802.11b/g, 802.11a and Bluetooth. This radio independence allows Intermec customers to choose the most efficient radio technology for their facilities.

Mobile Computing Products and Services

Intermec s mobile computing products include handheld and vehicle-mounted mobile computers and systems and related services that facilitate local-area and wide-area wireless and wired data communications. These products typically contain multiple wireless technologies (wide-area GPRS and CDMA, with 802.11 and Bluetooth) that can operate simultaneously in a mobile computer. This allows customers to communicate remotely with their field employees. Intermec also develops and sells handheld computer application software for designated markets and applications, as well as communication and server systems that can integrate the information into customers enterprise management systems.

Intermec has developed device management software that can interoperate with a customer s existing system management software to allow centralized management and control of remote devices such as mobile computers. Intermec s mobile computing systems may also include AIDC devices, specialized peripherals and printer solutions.

To assist its customers with the automation of business processes, Intermec provides professional services such as installation, maintenance, site security and systems integration. Intermec s line of handheld and vehicle-mounted computers have Microsoft Windows®, Windows® CE and Windows Mobile for Pocket PC®, and embedded Windows XP, as well as scanning and Internet Protocol-based data communication capabilities. Intermec s mobile computing product families range from relatively low-cost, handheld batch and wireless data collection devices to higher-cost pen-based computers with wired and wireless network capabilities and flexible vehicle-mount communication systems.

ITEM 1. BUSINESS (Continued)

Intermec s mobile computing products and systems allow a customer s remote workers to access centralized computer applications and databases, automatically collect data and send and receive data on a real-time basis. Intermec and its partners offer mobile computing application software for workforce automation, customer-level sales ordering, pricing and forecasting, account settlement and other software products that manage workforce automation and order dispatching, total field asset visibility, real-time proof of delivery, and other customer information.

Printer and Label Media Products and Services

Intermec s line of bar code printers range from relatively low-cost, light-duty models to higher-cost, heavy-duty, industrial models that accommodate a wide array of printing widths, materials and label configurations. Intermec printers can be wired or can be wirelessly attached to enterprise networks. Intermec s specialty printers provide custom capabilities, including color printing, a global language enabler and high resolution (400 DPI) printing that ensures sharp fonts and precise graphics even on extremely small labels such as those used by the electronics industry. Intermec s printer product line includes printers that can read and write to RFID tags.

Intermec s media products include pressure-sensitive bar code labels and thermal transfer ribbons, which are sold to customers worldwide. In Intermec media products, Intermec emphasizes service and value-added technologies, such as the design and manufacture of specialized labels to meet customer requirements for extreme environments such as clean rooms, chemical baths and high humidity.

Radio Frequency Identification (RFID) Products and Services

RFID technology is relatively new to the marketplace. RFID wirelessly communicates important product information that exceeds the information available from barcode between a tracking device, or reader, and tags comprising a computer chip and its antenna, encased in a protective covering. RFID tags are programmed to contain identification, serial numbers, history and other attributes. Certain RFID tags contain read/write memory to allow updates and tag reuse. Unlike laser-scanned bar codes, Intermec s RFID tags do not require line of sight to be read. Customers have expressed interest in using RFID technology as a tool to track pallets, cartons, containers and individual items through their supply chains or as an access security application.

Intermec is focusing on passive UHF RFID technology and is developing, manufacturing, selling and reselling RFID tags, readers, software and related equipment, systems and services under the Intermec trade name. Intermec s RFID products support International Standards Organization (ISO) standards and the new EPCglobal Generation 2 UHF standard (the Gen 2 standard), which are being adopted by customers worldwide. Intermec is working through alliances and directly with other companies to broaden customer access, support global standards and integrate data from RFID collection systems into broader information systems from Intermec.

Intermec has more than 150 RFID patents. In 2005, Intermec offered a Rapid Start RFID licensing program that provided licensees access to certain portions of Intermec s RFID patents. Intermec selected 19 companies to participate, including industry leaders such as Texas Instruments, Avery Dennison, Zebra Technologies, Inc. and Symbol Technologies, Inc. Rapid Start licensees include multiple companies in each RFID product category. Cisco also took a license under Intermec patents relating to the use of RFID technology with wireless equipment.

Services

With its customer support services, professional services and installation services, Intermec assists customers in designing, implementing and deploying automated identification and data capture (AIDC),

ITEM 1. BUSINESS (Continued)

products, systems and solutions in their businesses. Intermec s project management teams create strategic plans that clearly identify the customer s operational goals and AIDC solutions that will accomplish the business objectives. Intermec s project management teams also define the functional requirements for implementing AIDC products and systems in the customer s business. This includes the reason why they are needed, how they will be used, and how they will impact business processes.

Intermec s project management teams prepare an implementation plan and assist the customer in deploying AIDC products and systems in the customer s business. Intermec helps customers integrate new AIDC solutions with their existing AIDC systems and evaluate AIDC products, systems and services. Since Intermec has relationships with many vendors that provide complementary AIDC products, systems and services, Intermec can offer customers a one-stop shopping experience and comprehensive AIDC solutions. Intermec also provides customers with:

- A single point of contact for project communications
- Project planning, including defining the scope of work, preparing a statement of work, developing project objectives, developing schedules, identifying acceptance procedures, and documenting a project plan
- Project implementation, including proper site preparation; tracking, site evaluation surveys and installation schedules; coordination of the activities of all resources involved in the implementation; project status reports; and implementation of project controls
- Oversight and management of the overall installation process, including managing communications, tracking equipment shipment, managing change requests, and identifying problems and resolving them
- Project completion and closeout to the customer s requirements and expectations

Intermec s customer support services deliver global repair and support capabilities through its global network of service centers. These service centers provide maintenance and repair services to Intermec customers. Intermec s customer service representatives (CSR) are dispatched from more than 60 U.S. locations and from centers outside of the United States. Intermec s Global Education Services provides AIDC training services and solutions, including the design and delivery of training programs and assistance in creating training programs to be delivered by the customer s employees.

Technologies and Trends

Intermec offers a line of data capture products, which includes linear imaging, area imaging, RFID and, most recently, a laser scanning engine based on micro-electro mechanical system (MEMS) technology. Intermec s product suite provides customers with a range of automated identification and AIDC products and systems to meet their application and cost requirements.

Intermec has broadened its product offering by integrating new technologies into its products. Recent examples include:

- Ruggedized Windows CE and Windows Mobile-based computers
- Short-range radio system networks using Bluetooth technology
- MEMS-based laser scanning devices
- Low-cost, miniature linear image scan engines
- Devices that use the Internet to simplify the management of wireless networks

ITEM 1. BUSINESS (Continued)

- Ergonomic integrated terminals with modular designs and a variety of scan engines

Intermec develops RFID products for AIDC applications that are compliant and/or compatible with standards established by the International Standards Organization (ISO), EPCglobal and other standards-setting or certification organizations. This includes RFID scanners, RFID printers and RFID source tags, shipping labels, pallet tags, container tags and item tags with embedded electronic memory chips that can be reprogrammed via low-power radio signals.

A prominent industry organization serving the automotive sector has adopted a standard based upon certain of Intermec s communications protocols for RFID. The standard manages communications between a host computer and an RFID tag. This global standard is expected to be used in systems that will allow tire manufacturers and auto companies to track individual tires as they are manufactured, distributed and installed on new cars and trucks manufactured in North America.

Intermec also develops RFID products and systems that can be integrated with a customer s existing AIDC technology, such as bar code, mobile computing and other local area and wide area AIDC systems.

Business Strategy

Intermec s strategy consists of:

- Technology leadership in the AIDC industry
- Expanding and leveraging Intermec s intellectual property portfolio
- Expanding and strengthening Intermec s AIDC product portfolio
- Providing integrated AIDC solutions
- Partnering with global industry leaders
- Achieving economies of scale and scope
- Profitably increasing market share
- Increasing the scale of the business

Intermec s strategy is focused on customers in certain vertical markets, including:

- Retailers. The Retail vertical is a large, competitive and mature market. Customers in this vertical include global Tier 1 companies with $3 billion or more in sales. Segments within the Retail vertical range from grocery, pharmaceutical and specialty outlets to department and warehouse-style mega-stores.

- Consumer Goods manufacturers. The Consumer Goods vertical includes firms that make products primarily delivered through retail establishments and those that sell directly to the general public. Segments within the Consumer Goods vertical include food, beverage, consumer packaged goods, footwear/apparel, health/beauty, health/pharmacy, housewares/appliances, electronics, recreation, and media/publishing companies.

- Industrial Goods manufacturers. The Industrial Goods vertical includes firms primarily involved in business-to-business commerce. They supply the raw materials, components and assemblies needed by Consumer Goods manufacturers and services providers (e.g., aerospace, chemical, oil and gas, and electronics). The Industrial

Goods vertical also includes firms that produce very large, durable goods for businesses as well as consumers (e.g., automotive, computers and household appliances).

ITEM 1. BUSINESS (Continued)

- Transportation and Logistics (T&L) providers. The T&L vertical consists of firms directly providing shipping and transportation services with their own equipment, as well as non-asset-based logistics provider models. The most common non-asset firms are third-party logistics and fourth-party logistics providers. Segments within the T&L vertical include motor freight, air transport, railways, waterborne transportation and logistics service providers.

- Government agencies. This vertical includes U.S. federal, state and local government entities, although foreign government opportunities are growing at an increasing rate. The U.S. Department of Defense is an early adopter of automated data capture (ADC) technologies and has been actively deploying automated identification technology (AIT) logistics applications for more than two decades. Other departments of the federal government are beginning to adopt these technologies to improve their operations. State and local governments are also beginning to adopt these technologies particularly in the areas of public safety and service improvement.

Intermec s strategy is focused on certain application markets, including:

- Warehouse and distribution center operations. Warehouses and logistics operations rely on wireless networks and handheld and mobile computers to transmit inventory data to central host computers. When information is updated in real time, customers have greater visibility to their current business operations and are able to avoid inventory shortages and improve customer service by providing more accurate shipping and delivery information. As competition places more pressure on companies for faster operational performance, they typically upgrade their supply chain execution technologies to improve working capital efficiency and customer satisfaction standards, such as delivery speed, in-stock availability and order accuracy.

- Retail store operations. Retailers strive to reduce the number of out-of-stocks and to increase the time and amount spent by each customer during each visit. Retail store operations personnel need tools for managing the flow and tracking of merchandise in the store from receiving to stocking, ordering, pricing, price changing, checkout, returns and transfers. They use scanners, mobile computers, printers, RFID and other data capture devices as the primary technologies to assist them to accomplish these tasks.

- Retail store management. A recent trend gaining significant momentum is the desire of retail executives to get the store manager out of the back office and onto the store floor, where he or she can interact with customers and store personnel. To accomplish this, store managers require mobile computing tools that give them access to corporate information, store operations metrics and clerk applications and provide in-store merchandise scanning capabilities. This creates demand for scanning, RFID and mobile computing solutions geared specifically for the store manager.

- In-transit visibility. Transportation customers are demanding to know where their shipment is, who picked up a package or shipment, when it was delivered, what condition it was in on delivery, and who signed for it. Whether the transporter is a private fleet or third party logistics provider using for-hire railway or ocean container operations, the increasing cost of assets, wages, fuel and insurance and operating ratios that run around 90% requires maximum use of assets. This means turning them faster, eliminating empty return runs, reducing non-driving time (trucking) and optimizing effective, efficient maintenance. All forms of transportation use some form of carrier-specified numbering to identify the parcels, pallets or containers that make up a shipment for a particular customer. Mobile computing devices linked with bar code labels and/or RFID tags can provide signature capture and critical item tracking capabilities.

- Field service. Field service managers focus on work order management and asset management. Work orders tie field service technicians to specific jobs. Management must have information from

ITEM 1. BUSINESS (Continued)

the point where the work is being performed to optimize an entire range of operations including dispatch, routing and scheduling, status updates, service history, parts usage, call type and resolution, schematics, diagnostics, billing information, invoicing, collections, including credit cards, parts ordering and availability, vehicle location and driving directions, as well as internal metrics such as time to repair, labor tracking and job costing. Automated data collection systems linked with field service management software deliver the real-time information required to improve efficiency and reduce costs while increasing customer satisfaction. Asset management is the utilization, movement, and storage of the resources and capital equipment used by or used to support field service employees. This includes vehicles, parts inventory in transit or on the truck, and test and measurement equipment, as well as assets at remote or customer locations, such as consigned inventory and leased equipment. Equipment tagging and access control to secure storage are growing areas for RFID solutions.

- Manufacturing operations. Manufactures use data collection and computing technology to capture and monitor product flow during the production process, from raw materials or parts through to the finished goods stage. They also use the technology to track the activities and value-added content of labor and to capture product genealogy, product location and lines, supplier information for warranty and liability risk reduction and for regulatory compliance.

- Direct store delivery (DSD). DSD is the delivery of consumer good products from a supplier/distributor directly to a retail store, bypassing a retailer s warehouse. Activities typically include in-store inventory management, store-level authorized item management, store-level ordering/forecasting, product pricing, promotion, invoicing, the physical delivery and return of merchandise, the electronic exchange of delivery data with a retail store (DEX/UCS) and shelf merchandising. General wholesalers and distributors are not included in this category.

- RFID supply chain. RFID supply chain includes RFID compliance, as well as all the applications mentioned above. The addition of RFID technology can enhance the optimization and visibility of information all along a company s value chain. RFID compliance involves the application of RFID tags onto cases and pallets and the use of interrogators to read and write to those tags to meet the information collection and management requirements of manufactures, retailers and government entities. This includes traveling bills-of-material, manufacturing production routers, product history (genealogy), repair and upgrade databases, and bill of lading and security devices.

Markets and Customers

Because AIDC systems can be used by a company of any size, the AIDC market is large. Market growth is driven by the need for technologies and solutions that improve quality, productivity and cost efficiency in business and government, particularly through logistics automation, supply chain execution, enterprise resource planning (ERP) and e-commerce solutions. Intermec covers the market through a combination of a globally coordinated dedicated sales and service organization, two-tier distributors, resellers and independent hardware, software and service vendors. Distributors, resellers and independent vendors of complementary products and services extend Intermec s reach in its target and application markets and allow Intermec to cost-effectively penetrate and grow market share with small, mid-sized and large businesses.

Intermec sells and services its products through multiple sales and distribution channels: (1) a direct field sales force that concentrates on large or complex systems sales; (2) premier value-added resellers (known as Honours Partners) that provide application-specific solutions with major systems integrators; and enterprise computing companies; and (3) distributors that provide value-added services to smaller independent software vendors and resellers.

ITEM 1. BUSINESS (Continued)

Intermec s direct sales organization serves customers from offices throughout the Americas, Europe, the Middle East, Africa and in selected Asia Pacific countries, including China and Australia. Indirect sales channels include preferred and non-exclusive relationships with value-added distributors and master resellers. Sales of accessories, certain services and low-cost transactional-based business can be transacted over the Internet. Intermec has a field-based business development function which identifies new market opportunities and supports the sales effort in those new areas.

The mobile computing systems market includes several applications, such as direct-store-delivery, pick-up and delivery for package/parcel delivery industries, sales merchandising, in-transit asset visibility, parts management and workforce automation applications. These applications are generally used in the consumer products, food, beverage, wholesale, parcel delivery, freight, field service and home service industries.

Manufacturing applications include the collection and communication of information related to receipt of materials, work in process, finished goods inventory and other functions throughout the manufacturing process. Warehousing and distribution center applications involve the collection and communication of information related to receiving materials to be stored, storage locations, materials retrieval, order picking and consolidation and shipping. Retail applications include the warehouse operations discussed above, as well as automation of shelf label maintenance, merchandising, ordering and replenishment, price mark-downs, along with customer service and store management.

International sales opportunities exist in countries where communications infrastructure, mobile computing practices and other systems and applications are similar to or likely to become similar to those in the U.S. The extent of wireless systems opportunities in any particular country is based on the level of industrialization, communication infrastructure, the status of bar code implementation, and the regulatory environment for wireless communication technologies. The major markets for printers and media are manufacturing, distribution, warehousing, transportation, health care, government and other services.

Intermec s customer base consists of businesses of many sizes, government agencies and resellers. No single customer accounted for 10% or more of revenues in fiscal 2005, 2004 or 2003.

Although the majority of Intermec s sales are made through indirect sales channels, no individual value-added distributor or reseller represents more than 10% of Intermec s consolidated revenues. Intermec maintains direct contact with customers and prospective users by having established user forums for automated data systems applications and technologies.

Competition

The market for AIDC products and systems is fragmented. Based on independent market surveys, management believes that Intermec is one of the largest participants measured by revenues. Symbol Technologies, Inc. is a major competitor supplying a range of barcode, RFID and mobile computing products and services. Intermec also faces strong competition in single AIDC product lines from suppliers such as Zebra Technologies Corporation, which supplies barcode and RFID printers and Hand Held Products, which supplies barcode imagers.

The market for AIDC products, systems and related services is highly competitive and rapidly changing. Some firms, including Fujitsu and Casio, manufacture and market hand held systems for field-based ordering and selling applications. In addition, a number of firms manufacture and market radio-linked data communication products, including Hand Held Products LXE, Symbol and Psion /Teklogix. Consumer personal digital assistants from suppliers such as Palm, Hewlett Packard and Dell are potential competitors for certain non-mission-critical, light-duty enterprise computing applications. Companies such as Symbol and Entersys compete against Intermec and Cisco Systems Inc. in the wireless network business.

ITEM 1. BUSINESS (Continued)

On the printer side, Intermec faces competition from Zebra, Datamax, SATO, Printronix and many others, depending on the geographic area. In the label media area, Intermec faces competition from a large number of large and small media producers including, among many others, Avery Denison.

Intermec competes primarily on the basis of its technology and expertise in applications for specific vertical markets (integrated solutions, open-systems architecture, networking and communications expertise, applications software), customer relationships and value-added service. Other attributes, such as level of sales and support services, product functionality, performance, ruggedness and overall product quality, are important for market success.

Research and Development

Research and development expenditures related to Intermec s continuing operations amounted to $66.5 million, $65.9 million and $49.8 million, all of which was sponsored by Intermec, in the years ended December 31, 2005, 2004 and 2003, respectively.

Intellectual Property

Intermec strives to protect its investment in technology and to secure competitive advantage by obtaining intellectual property protection within and outside of the United States. Over a period of years, the Company has secured over 570 patents and a number of trademarks, copyrights and trade secrets. When appropriate, Intermec has obtained licenses to use intellectual property controlled by other organizations. The combination of Intermec s intellectual property and licenses to use third-party intellectual property has been of value in the growth of Intermec s business and is expected to be of value in the future. However, management believes that Intermec s business does not depend on any single patent in its portfolio or on any single trademark, copyright, trade secret or intellectual property license agreement and would not be materially affected by the expiration or termination thereof.

Management believes that the duration of Intermec s patents is adequate relative to the expected lives of its products and services. Because of the fast pace of innovation and product development in the automated identification and data capture (AIDC) industry, Intermec s products and services may be obsolete before the patents related to them expire, and sometimes are obsolete before the patents related to them are even granted. As Intermec expands its product offerings, it seeks to obtain patents related to such offerings and, when appropriate, it seeks licenses to use inventions patented by third parties. Established competitors in existing and new industries, as well as companies that purchase and enforce patents and other intellectual property, may already have patents covering similar products and services. There is no assurance that Intermec will be able to obtain patents covering its own products and services or that it will be able to obtain licenses from other organizations on favorable terms or at all.

To distinguish Intermec products and services from those of its competitors, Intermec has obtained certain trademarks and trade names and, as it expands its product and service offerings, it attempts to obtain trademarks and trade names to cover those new offerings. Established competitors in existing and new industries may attempt to secure the same or similar trademarks or trade names covering similar products and services. There is no assurance that Intermec will be able to obtain trademarks or trade names covering its own products and services or that it will be able to obtain licenses for desirable trademarks or trade names from other organizations on favorable terms or at all.

Intermec protects certain details of its processes, products and strategies as trade secrets by restricting access to that information. Intermec has ongoing programs designed to maintain the confidentiality of such information but there is no assurance that these programs will prevent unauthorized disclosures of such confidential information.

ITEM 1. BUSINESS (Continued)

From time to time, Intermec licenses its intellectual property to other organizations to generate revenue or to facilitate its effort to market and sell its products and services. While such licenses have been of value in the growth of Intermec s business and are expected to be of value in the future, management believes that Intermec s business is not dependent upon any single intellectual property license and would not be materially affected by the expiration or termination thereof. Intermec may attempt to license more of its intellectual property to other organizations in the future. There is no assurance that any of these efforts will be successful.

Intermec tries to protect its investment in technology and to secure competitive advantage by enforcing its intellectual property rights. The extent of the legal protection given to different types of intellectual property rights varies greatly from one country to another. There is no assurance that Intermec s effort to enforce its intellectual property in any jurisdiction will be successful or will be successful enough to materially benefit its business.

Seasonality and Backlog

Intermec s quarterly results reflect seasonality in the sale of its products and services, as its revenues are typically highest in the fourth fiscal quarter and the lowest in the first fiscal quarter. See Quarterly Financial Information on page Q-1 of this Form 10-K for quarterly revenues and expenses.

Sales backlog for Intermec s continuing operations was $64 million, $76 million and $61 million at December 31, 2005, 2004 and 2003, respectively. The Intermec business typically operates without a significant backlog of firm orders and does not consider backlog to be a significant measure for indicating future sales.

Employees

At December 31, 2005, Intermec had 2,497 full-time employees, of which 2,467 were engaged in its subsidiary, Intermec Technologies Corporation, and 30 were engaged in corporate and shared services.

Environmental and Regulatory Matters

In January 2003 the European Parliament and Council adopted Directive 2002/95/EC on the Restriction of the Use of Certain Hazardous Substances in Electrical and Electronic Equipment (the RoHS Directive). The Directive goes into effect on July 1, 2006 and prohibits firms from putting on the European Union (EU) market new electrical and electronic equipment that contains more than permitted levels of lead, cadmium, hexavalent chromium, polybrominated biphenyl (PBB) and polybrominated diphenyl ether (PBDE). The RoHS Directive does not apply to units of equipment already placed on the EU market prior to July 1, 2006. In addition, the RoHS Directive contains exemptions for (a) certain types of equipment; (b) reuse of equipment placed on the EU market prior to July 1, 2006; and (c) spare parts for the repair of equipment placed on the EU market prior to July 1, 2006.

The State of California also has adopted restrictions on the use of certain materials in electronic products that are intended to harmonize with the RoHS Directive. Those restrictions go into effect in 2007. Other U.S. states are considering similar legislation. Similarly, China has promulgated use restrictions on the same substances as the RoHS Directive. China has not yet defined the scope of affected products or the effective date of the regulation and it is unclear whether China s use restrictions will be consistent with the use restrictions set forth in the RoHS Directive. Other countries outside of the EU may adopt RoHS-type regulations in the future.

ITEM 1. BUSINESS (Continued)

Intermec is redesigning some of its products to bring them into compliance with the RoHS Directive and similar regulations in other jurisdfont-family:Times New Roman">**Year Ending December 31,**

Remainder of 2014

$167

2015

223

2016

223

2017

223

2018

223

2019

223

Thereafter

1,239

Total

$2,521

NOTE E REVENUE RECOGNITION AND CONTRACTUAL ADJUSTMENTS

The Company recognizes revenues when (a) the price is fixed or determinable, (b) persuasive evidence of an arrangement exists, (c) the service is performed and (d) collectability of the resulting receivable is reasonably assured.

The Company s specialized diagnostic services are performed based on a written test requisition form or electronic equivalent 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. The Company reports revenues from contracted payers, including Medicare, certain insurance companies and certain healthcare institutions, based on the contractual rate, or in the case of Medicare, published fee schedules. The Company reports revenues from non-contracted payers, including certain insurance companies and individuals, based on the amount expected to be collected. The difference between the amount billed and the amount estimated to be collected from non-contracted payers is recorded as an allowance to arrive at the reported net revenues. The expected revenues from non-contracted payers are based on the historical collection experience of each payer or payer group, as appropriate. The Company records revenues from patient pay tests net of a large discount and as a result recognizes minimal revenue on those tests. The Company regularly reviews its historical collection experience for non-contracted payers and adjusts its expected revenues for current and subsequent periods accordingly.

The table below shows the adjustments made to gross service revenue to arrive at net revenues (in thousands), the amount reported on our statement of operations.

	Three Months Ended March 31,	
	2014	**2013**
Gross Service Revenues	$ 41,200	$ 41,325
Total Contractual Adjustments and Discounts	(23,018)	(25,668)
Net Revenues	$ 18,182	$ 15,657

We were able to grow revenue by 16% on a year over year basis and this revenue growth was achieved despite a $700,000 reduction in revenue recorded to account for a conservative interpretation of the unresolved National Correct Coding Initiative (NCCI) edits relating to billing Medicare for FISH testing. The National Correct Coding Initiative NCCI FISH testing edits came about from new guidelines issued in the fourth quarter of 2013 which created a contradiction with respect to billing practices. These guidelines reduced the amount of units we could bill Medicare on certain FISH tests. The Company and The American Clinical Laboratory Associaion (ACLA) have asked Medicare to provide further guidance with respect to these edits and a favorable outcome on guidance from Medicare could result in us recognizing this $700,000 of revenue in a future period.

NOTE F EARNINGS PER SHARE (in thousands, except EPS)

Basic earnings per share (EPS) is computed using the weighted average number of common shares outstanding during the applicable period. Diluted earnings per share is computed using the weighted average number of common shares outstanding during the applicable period, plus the dilutive effect of potential common stock. Potential common stock consists of shares issuable pursuant to stock options and warrants. Calculations of net income per share are done using the treasury stock method.

The following table provides the computation of basic and diluted earnings per share for the three month periods ending March 31, 2014 and 2013.

	Three Months Ended March 31,	
(in thousands, except EPS)	2014	2013
Net income	$ 102	$ 3
Basic weighted average shares outstanding	49,277	46,264
Effect of potentially dilutive securities	4,192	4,659
Diluted weighted average shares outstanding	53,469	50,923
Basic EPS	$ 0.00	$ 0.00
Diluted EPS	$ 0.00	$ 0.00

Outstanding options of 311,500 and 5,000 for the three months ended March 31, 2014 and 2013, respectively, were excluded from the calculation of diluted earnings per share due to their anti-dilutive effects.

NOTE G EQUITY

Stock Options

As of March 31, 2014, options to purchase 5,952,460 shares of our common stock were outstanding. The exercise prices of these options range from $0.25 to $4.30 per share.

Common Stock Warrants

On February 7, 2014 Gulfpointe Capital exercised 83,333 warrants to purchase shares of NeoGenomics common stock at an exercise price of $0.75 per share. The Company received proceeds of $62,500 from the exercise.

On March 12, 2014 Douglas M. VanOort exercised 375,000 warrants to purchase shares of NeoGenomics common stock at an exercise price of $1.05 per share. The Company received proceeds of $393,750 from the exercise. On March 16, 2014, 250,000 warrants issued to Douglas M. VanOort expired unvested.

As of March 31, 2014, warrants to purchase 650,000 shares of our common stock were outstanding. The exercise prices of these warrants range from $1.43 to $1.50 per share.

NOTE H COMMITMENTS

NeoGenomics entered into a master lease agreement with Pacific Western Equipment Finance for the leasing of up to $2.0 million of equipment on an equipment leasing line. The lease has a term of 36 months starting on its commencement date at a lease rate factor that will be fixed upon final acceptance of the lease. Until such final acceptance of the lease there is a floating lease rate factor of 0.03026 that shall increase 0.000069966 for every five basis point increase in thirty-six month Interest Swap Rates. During the three months ended March 31, 2014 we committed to purchase approximately $967,000 of equipment during the first quarter of 2014, some of which has yet to be delivered to us. Our availability under the line was $1,033,000 as of March 31, 2014.

During the three months ended March 31, 2014 we also entered into lease schedules with several vendors for approximately $537,000 for the purchase of computer equipment and computer software, some of which have yet to be delivered to us. The leases have 36 month terms with $1 buyout options at the end of the terms and interest rates in the range between 1.0% and 11.2%.

During the three months ended March 31, 2014 we also entered into an equipment finance agreement for approximately $227,000 for the purchase of furniture. The equipment finance agreement has a 60 month term and an interest rate of 8.9%.

NOTE I OTHER RELATED PARTY TRANSACTIONS

During both of the three month periods ended March 31, 2014 and 2013, Steven C. Jones, a director of the Company, earned approximately $62,500 for various consulting work performed in connection with his duties as Executive Vice President of Finance. Mr. Jones also received $47,500 and $55,000 during the three months ended March 31, 2014 and 2013 as payment of his annual bonus compensation for the previous fiscal years, respectively.

NOTE J SUBSEQUENT EVENTS

On April 22, 2014, NeoGenomics, Inc. (NeoGenomics or the Company) entered into a Second Amended and Restated Strategic Laboratory Services Agreement (the Agreement) with Florida Cancer Specialists, P.L. (FCS). Under the terms of the Agreement, FCS agreed that, subject to certain exceptions, it would first offer to have NeoGenomics perform all cytogenetics and molecular testing services on cancer specimens from FCS s 72 practice locations before either performing such services in its own laboratory or referring such specimens to other laboratories. FCS also agreed, subject to certain exceptions, that it would first offer to have NeoGenomics perform any other cancer genetic testing services not otherwise performed by FCS s internal laboratory before referring such specimens to other laboratories. NeoGenomics agreed to perform all accessioning and customer service functions and provide certain other services relating to cancer genetics testing for all of FCS s practice locations. The Agreement extends the current contract through December 31, 2015, but will automatically renew for additional one year terms thereafter, unless either party gives the other party six months prior written notice.

END OF FINANCIAL STATEMENTS.

ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

NeoGenomics, Inc., a Nevada corporation (referred to individually as the Parent Company or collectively with its subsidiary 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 Capital Market under the symbol NEO.

Introduction

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

Overview

We operate a network of cancer-focused testing laboratories whose mission is to improve patient care through exceptional genetic and molecular testing services. Our vision is to become America s premier cancer testing laboratory by delivering uncompromising quality, exceptional service and innovative products and services. The Company has laboratory locations in Ft. Myers and Tampa, Florida; Irvine, California; and Nashville, Tennessee, and currently offers the following types of testing services:

a) Cytogenetics testing the study of normal and abnormal chromosomes and their relationship to disease. Cytogenetic studies are often utilized to answer diagnostic, prognostic and predictive questions in the treatment of hematological malignancies and solid tumors;

b) Fluorescence In-Situ Hybridization (FISH) testing a branch of cancer genetics that focuses on detecting and locating the presence or absence of specific DNA sequences and genes on chromosomes. FISH helps bridge abnormality detection between the chromosomal and DNA sequence levels;

c) Flow cytometry testing a rapid way to measure the characteristics of cell populations. Cells from peripheral blood, bone marrow aspirate, lymph nodes, and other areas are labeled with selective fluorescent antibodies and quantified according to their surface antigens. These fluorescent antibodies bind to specific cell surface antigens and are used to identify malignant cell populations. Flow cytometry is typically performed in conjunction with morphology testing which looks at smears on glass slides for abnormal cell populations;

d) Immunohistochemistry (IHC) testing the process of identifying cell proteins in a tissue section utilizing the principle of antibodies binding specifically to antigens. Specific surface cytoplasmic or nuclear markers are characteristic of cellular events such as proliferation or cell death (apoptosis). IHC is also widely used to understand the distribution and localization of differentially expressed proteins; and

e) Molecular testing a rapidly emerging cancer diagnostic tool focusing on the analysis of DNA and RNA, as well as the structure and function of genes at the molecular level. Molecular testing employs multiple technologies including bi-directional Sanger sequencing analysis, DNA fragment length analysis, real-time polymerase chain reaction (RT-PCR) RNA analysis and Next-Generation sequencing.

All of these testing services are widely utilized to determine the diagnosis and prognosis of various types and subtypes of cancer and to help predict a patient s potential response to specific therapies. NeoGenomics offers testing services

on both a tech-only basis, where NeoGenomics performs the technical component of the testing (specimen set-up, staining, imaging, sorting and categorization of cells, chromosomes, genes or DNA) and the client physician performs the related professional interpretation component (analyzing the laboratory data, viewing the cells, developing the diagnosis or prognosis as well as preparing and writing the final report), as well as on a full service or global basis where NeoGenomics performs both the technical component and our medical staff provides the professional interpretation component.

Our Focus: Grow, Innovate, Diversify and Get Lean

Grow

We plan to continue growing organically by providing high complexity, cancer-related laboratory testing services to hospitals, community-based pathology practices, and clinicians throughout the United States. We currently perform analyses for hematopoietic cancers such as leukemia and lymphoma (blood and lymphoid tumors) and solid tumor cancers such as breast, lung, colon, and bladder cancer. For hematopoietic cancers, we typically analyze bone marrow aspirate and peripheral blood specimens. For solid tumor cancers, we typically analyze tissue samples or urine.

The 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 empowers them to expand their breadth of testing and provide a menu of services that matches or exceeds the level of service found in academic centers of excellence around the country. Community-based pathology practices typically order our services on a tech-only basis, which allows them to participate in the diagnostic process by performing the professional interpretation services without having to make the investment in laboratory personnel or equipment needed to perform the technical component of the tests.

In areas where we do not provide services to community-based pathology practices, we may directly serve oncology, dermatology, urology and other clinician practices that prefer to have a direct relationship with a laboratory for cancer-related genetic and molecular testing services. We typically service these types of clients with a global service offering where we perform both the technical and professional components of the tests ordered. Increasingly, however, larger clinician practices have begun to internalize pathology testing services, and our tech-only service offering allows these larger clinician practices to also participate in the diagnostic process by performing the professional interpretation services on testing they do not perform in their own laboratory.

We will also look to grow our business through mergers or acquisitions if the right opportunity becomes available. We are focused on opportunities that would be complementary to our menu of services and would be accretive to our earnings in a short timeframe.

Innovate

We are committed to being an innovative leader in oncology testing, and thus we are also focused on innovation. Our goal is to develop new assays to help physician clients better manage their patients and to enable them to practice evidence-based medicine tailored specifically for each of their patients. During the quarter ended March 31, 2014 we introduced an additional 23 new molecular tests and cancer profiles. Our clients have been very receptive to our new molecular offerings and we believe that we have the most comprehensive molecular test menu of any laboratory in the United States. We are also seeing increasing interest in our molecular menu from several Pharmaceutical firms. Molecular testing is a rapidly growing part of oncology testing, which allows us to determine specific subtypes of cancer, as well as predict responses to certain therapeutics by isolating certain genetic mutations in DNA and RNA. We also introduced a number of NeoTYPE™ panels that combine multiple molecular tests into panels targeting specific types of cancer to help pathologists and oncologists determine cancer subtypes on difficult cases. We use bi-directional sequencing analysis which we believe is superior to many of the molecular tests being offered by our competitors because we are able to pick up mutations that other methods would not detect. In addition, during the quarter ended March 31, 2014 we were able to launch next generation sequencing capabilities for clinical use. We believe that we are well-positioned to capitalize on this rapidly growing area.

We are working on developing a proprietary NeoSCORE™ Prostate cancer test that is performed on the combination of blood plasma and urine rather than on prostate tissue biopsies. There are two goals for this test, to diagnose the

presence of cancer in patients with BPH (Benign prostatic hyperplasia) and to distinguish high-grade from low-grade cancer in patients with prostate cancer. We completed a preliminary patient study in June 2013, and the results were recently published in the Genetic Testing and Molecular Biomarkers journal. In addition, we recently completed a follow up study with additional patient samples which confirmed the published preliminary data. We are also expanding our work to include patient samples from outside the United States. While further validation work needs to be completed, we continue to be excited about the potential for this test. We hope to present an abstract at the next ASCO meeting. We are planning a limited launch of our NeoSCORE™ test in the second quarter of 2014 and a full launch later in the year.

Our 10 color flow cytometry service offering has been very well received as it provides approximately 60% more data than previous flow cytometry platforms and allows for better operating efficiencies. In addition, over the last year we have vastly improved our immunohistochemistry offering, brought up a new digital imaging platform and launched several new FISH tests including a very promising new test to aid in the diagnosis of Barrett s Esophagus that we are offering on a semi-exclusive basis. We expect these new tests to drive substantial growth in the future. We also expect to continue to make investments in R&D that will allow us to commercialize a number of new and innovative genetic tests as we move forward.

In January 2012, we entered into a license agreement with Health Discovery Corporation (HDC) to license certain Support Vector Machine / Recursive Feature Elimination technology (SVM-RFE). We believe SVM-RFE techniques will allow us to combine and analyze data from genomics, proteomics and digital imaging to develop practical, cost-effective and reliable new assays and other proprietary tests. Using this technology, we believe we will be able to offer a whole line of advanced tests that will help physicians better manage the treatment options for cancer patients. We have prioritized the development of better tests for the diagnosis and prediction of clinical behavior in prostate cancer, pancreatic cancer, breast cancer, leukemia/lymphoma and other solid tumors as part of the License Agreement. We intend to launch a test for prostate cancer in 2014. We are also developing a Cytogenetics Interpretation System using the SVM technology that we believe will result in substantial cost savings and open up the opportunity for sub-licensing revenue in future years.

Diversify

Our third focus in 2014 is diversification. In November 2013, we announced an exclusive alliance with Covance Central Laboratories (Covance) to provide comprehensive anatomic pathology, histology and specialty laboratory testing services for clinical trials. Covance is the largest contract research organization servicing the needs of the pharmaceutical industry. Through this alliance, Covance s clients will gain access to fully integrated anatomic pathology and histology (APH) services, including immunohistochemistry (IHC), fluorescence in-situ hybridization (FISH) and molecular testing. Covance will establish a laboratory at NeoGenomics Fort Myers, Florida facility and together with NeoGenomics, will provide a full range of APH, tissue based biomarkers and other specialty testing services. The companies will then expand joint capabilities globally at Covance s central laboratory locations in Shanghai, China; Geneva, Switzerland; and Singapore. As part of the alliance, Covance will have access to NeoGenomics extensive medical and scientific networks, which includes more than 500 pathologists. NeoGenomics gains access to Covance s broad market reach, established client relationships, and extensive clinical trials experience. We believe this alliance will provide seamless global testing services supporting oncology and companion diagnostics strategies for biopharmaceutical firms around the world. We are currently expanding our facility in Fort Myers, Florida to provide the capacity to grow this partnership with Covance and to provide quality testing for global clinical trials. NeoGenomics has ongoing clinical trials with international pharmaceutical firms and working along with Covance will allow us to work on trials on a global basis.

We have been able to diversify our product lines with over 70 new molecular tests and profiles launched over the last two years. During the three months ended March 31, 2014 we recognized $3.5 million of revenue from new products that were launched in the last two years. Among the new products launched during the quarter were Calreticulin, a 48 gene Next Generation Sequencing test for solid tumors, and a 14 gene Next Generation Sequencing test for Mylodysplastic syndrome.

Get Lean

We are focused on becoming more efficient and reducing our cost per test. Our best practice teams work with our information technology teams to make improvements in efficiencies to our lab processes. We are using information systems and technology to move NeoGenomics further along the path of being a fully digital lab , that uses on-line ordering, bar coding, specimen tracking, and other tools to create a streamlined, seamless, and efficient lab. We are

also currently undertaking a facility upgrade to our Fort Myers, Florida lab location and we expect this upgrade to increase our efficiencies and reduce our cost per test.

Competitive Strengths

Turnaround Times

We strive to provide industry leading turnaround times for test results to our clients nationwide. By providing information to physicians in a rapid manner, they can begin treating their patients as soon as possible. We believe our average 4-5 day turnaround time for our cytogenetics testing services, our average 3-4 day turnaround time for FISH testing services, our 5-7 day turnaround time for molecular testing and our average 1 day turnaround time for flow cytometry testing services are industry-leading benchmarks for national laboratories. Our consistent timeliness of results is a competitive strength and a driver of additional testing requests by our referring physicians. Quick turnaround times allow for the performance of other adjunctive tests within an acceptable diagnosis window in order to augment or confirm results and more fully inform treatment options. We believe that our rapid turnaround times are a key differentiator of NeoGenomics versus other national laboratories, and our clients often cite them as a key factor in their relationship with us.

Medical Team

Our team of medical professionals and Ph.Ds. are specialists in the field of genetics and oncology. Our medical team is led by our Chief Medical Officer, Dr. Maher Albitar, a renowned hematopathologist with extensive experience in molecular and genetic testing. Prior to joining NeoGenomics, Dr. Albitar was Medical Director for Hematopathology and Oncology at the Quest Nichols Institute and Chief R&D Director for Hematopathology and Oncology for Quest Diagnostics. He also served as Section Chief for Leukemia at the University of Texas M. D. Anderson Cancer Center. In addition to Dr. Albitar, we employ several other full-time M.D.s and Ph.Ds.

Extensive Tech-Only Service Offerings

We launched the first tech-only FISH testing services in the United States in 2006, and we currently have the most extensive menu of tech-only FISH services in the country. We also offer tech-only flow cytometry and immunohistochemistry testing services. These types of testing services generally allow the professional interpretation component of a test to be billed separately from the technical component. Our NeoFISH™, NeoFLOW™ and other tech-only service offerings allow properly trained and credentialed community-based pathologists to extend their own practices by performing professional interpretations services, which allows them to better service the needs of their local clientele without the need to invest in the lab equipment and personnel required to perform the technical component of genetic and molecular testing.

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

Global Service Offerings

We also offer a full set of global services to meet the needs of those clients who are not credentialed and trained in interpreting genetic tests and who are looking for specialists to interpret the testing results for them. In our global service offerings, our lab performs the technical component of the tests and our M.D.s and Ph.Ds. provide the

interpretation services. Our professional staff is also available for post testing consultative services. These clients rely on the expertise of our medical team to give them the answers they need in a timely manner to help inform their diagnoses and treatment decisions. Many of our tech-only clients also rely on our medical team for difficult or challenging cases by ordering our global testing services on a case by case basis or our medical team can serve as a backup to our clients who need overflow or weekend coverage. Our Genetic Pathology Solutions (GPS) report summarizes all relevant case data from our global services on one summary report. When providing global services, NeoGenomics performs both the technical and professional component of the test, which results in a higher reimbursement level.

Client Education Programs

We believe we have one of the most extensive client education programs in the genetic and molecular testing industry. We train pathologists how to use and interpret genetic testing services so that they can better interpret technical data and render their diagnosis. Our educational programs include an extensive library of on-demand training modules, online courses, and custom tailored on-site training programs that are designed to prepare clients to utilize our tech-only services. Each year, we also regularly sponsor seminars and webinars on emerging topics of interest in our field. Our medical staff is involved in many aspects of our training programs.

Superior Testing Platforms

We use some of the most advanced testing platforms in the laboratory industry. The use of bi-directional sequencing in our molecular testing allows us to detect multiple mutations which can be missed with single point mutation analysis. Many laboratories rely on more limited kits which only look at single points on a gene. We also have launched next generation sequencing in 2014. Our automated FISH and Cytogenetics tools allow us to deliver the highest quality testing to our clients.

Laboratory Information System (LIS)

We believe we have a state-of-the-art Laboratory Information System (LIS) that interconnects our locations and provides flexible reporting solutions to clients. This system allows us to standardize testing and deliver uniform test results and images throughout our network, regardless of the location that any specific portion of a test is performed within our network. This allows us to move specimens and image analysis work between locations to better balance our workload. Our LIS also allows us to offer highly specialized and customizable reporting solutions to our tech-only clients. For instance, our tech-only NeoFISH™ and NeoFLOW™ applications allow our community-based pathologist clients to tailor individual reports to their specifications and incorporate only the images they select and then issue and sign-out such reports from our system with their own logos at the top. Our customized reporting solution even allows our clients to incorporate test results performed on ancillary tests not performed at NeoGenomics into summary report templates. This feature has been well-received by clients.

National Direct Sales Force

Our direct sales force has been trained extensively in cancer genetic testing and consultative selling skills to service the needs of clients. Our sales representatives (Territory Business Managers) are organized into three regions (Northeast, Central and West). These sales representatives all utilize our custom Customer Relationship Management System to manage their territories, and we have integrated all of the important customer care functionality within our LIS into Salesforce.com so that our Territory Business Managers can stay informed of emerging issues and opportunities within their regions.

Geographic Locations

Many high complexity laboratories within the cancer testing niche have frequently operated a core facility on either the West Coast or the East Coast of the United States to service the needs of their customers around the country. We believe our clients and prospects desire to do business with a laboratory with national breadth and a local presence. We have four facilities, two large laboratory locations in Fort Myers, Florida and Irvine, California and two smaller laboratory locations in Nashville, Tennessee and Tampa, Florida. Our objective is to operate one lab with four locations in order to deliver standardized, high quality, test results. We intend to continue to develop and open new laboratories and/or expand our current facilities as market situations dictate and business opportunities arise.

Scientific Pipeline

In the past few years our field has experienced a rapid increase in tests that are tied to specific genomic pathways . These predictive tests are typically individualized for a small sub-set of patients with a specific subtype of cancer. The therapeutic target in the genomic pathways is typically a small molecule found at the level of the cell surface, within the cytoplasm and/or within the nucleus. These genomic pathways, known as the Hallmarks of Cancer , contain a target-rich environment for small-molecule anti-therapies . These anti-therapies target specific mutations in the major cancer pathways such as the Proliferation Pathway, the Apoptotic Pathway, the Angiogenic Pathway, the Metastasis Pathway, and the Signaling Pathways and Anti-Signaling Pathways.

We are working with the technology we licensed from HDC to develop new proprietary cancer tests, streamline our workflow, and reduce our costs.

Seasonality

The majority of our testing volume is dependent on patients being treated by hematology/oncology professionals and other healthcare providers. Volume of testing generally declines during the vacation seasons, year-end holiday periods and other major holidays, particularly when those holidays fall during the middle of the week. In addition, volume of testing tends to decline due to adverse weather conditions, such as heavy snow, excessively hot or cold spells or hurricanes, tornados in certain regions, consequently reducing revenues and cash flows in any affected period. Therefore, comparison of the results of successive periods may not accurately reflect trends for future periods.

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.

While many operational aspects of our business are subject to complex federal, state and local regulations, the accounting for our business is generally straightforward with net revenues primarily recognized upon completion of the testing process. Our revenues are primarily comprised of laboratory tests, and approximately one-half of total operating costs and expenses consist of employee compensation and benefits. Due to the nature of our business, several of our accounting policies involve significant estimates and judgments. These accounting policies have been described in our Annual Report on Form 10-K for the year ended December 31, 2013.

Results of Operations for the Three Months Ended March 31, 2014 as Compared to the Three Months Ended March 31, 2013

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

	For the three months ended March 31.	
	2014	**2013**
NET REVENUE	100%	100%
COST OF REVENUE	52%	54%
GROSS PROFIT	48%	46%
OPERATING EXPENSES:		
General and administrative	28%	27%
Research and development	3%	5%
Sales and marketing	15%	12%
TOTAL OPERATING EXPENSES	46%	44%
INTEREST (INCOME) EXPENSE, NET	2%	2%

NET INCOME BEFORE INCOME TAX	1%	0%
INCOME TAXES	0%	0%
NET INCOME	1%	0%

Revenue

Our revenue, requisition and test metrics for the three months ended March 31, 2014 and 2013 (in thousands, except test and requisition data) are as follows:

	For the three months ended March 31, 2014	For the three months ended March 31, 2013	% Change
Requisitions Received	24,704	20,604	19.9%
Number of Tests Performed	38,734	32,088	20.7%
Avg. # of Tests / Requisition	1.57	1.56	0.7%
Total Testing Revenue	$ 18,182	$ 15,657	16.1%
Average Revenue/Requisition	$ 736	$ 760	(3.1)%
Average Revenue/Test	$ 469	$ 488	(3.8)%

Our approximate 16.1% year-over-year revenue growth is a result of a broad based increase in the number of new clients resulting in a 20.7% increase in test volume. We feel that the increases in new clients is a direct result of our efforts to innovate by developing one of the most comprehensive Molecular testing menus in the industry. Our average revenue/test decrease of approximately 3.8% was primarily attributable to the National Correct Coding Initiative NCCI FISH testing edits that came about from new guidelines issued in the fourth quarter of 2013. These guidelines reduced the amount of units we could bill Medicare on certain FISH tests. Average revenue per test and per requisition was also modestly impacted by an increasing proportion of lower average revenue molecular and immunohistochemistry tests in our testing mix.

Cost of Revenue and Gross Profit

Cost of revenue includes payroll and payroll related costs for performing tests, 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. Our cost of revenue, gross profit and test metrics for the three months ended March 31, 2014 and 2013 are as follows:

	For the three months ended March 31.			
	2014	2013	Change	% Change
Cost of Revenue	$ 9,473,000	$ 8,411,000	$ 1,062,000	12.6%
Cost of Revenue as a % of revenue	52.1%	53.7%		
Gross Profit	$ 8,709,000	$ 7,246,000	$ 1,463,000	20.2%
Gross Profit as a % of revenue	47.9%	46.3%		
Average Cost of Revenue per Test	$ 245	$ 262	$ (17)	(6.5)%
Average Gross Profit per Test	$ 224	$ 226	$ (2)	(0.9)%

Overall cost of revenue increased in 2014 due to the large increases in our testing volumes. The decline in cost of revenue per test was the result of improved productivity in our laboratory, as we experienced an increase in the amount of tests processed per laboratory FTE (full time equivalent personnel). This was driven by improved capacity planning and utilization along with several process improvements in the laboratory. We also saw growth in lower priced and lower cost molecular tests. We are undertaking a facility upgrade to our Fort Myers, Florida lab location

and we expect this upgrade to reduce our cost per test. The new laboratory design was aided by our Lean process teams and uses Lean principles to improve our operating efficiency. We are implementing Lean process initiatives, bar coding and scanning technology, new and improved instrumentation to further automate our laboratories, and new IT enhancements that will help us process more tests more effectively and efficiently. We believe that we will continue to see a reduction in average cost per test in future periods based on the activities of our best practice teams.

Sales and Marketing

Sales and marketing expenses relate primarily to the employee related costs of our sales management, sales representatives, sales and marketing consultants, marketing, and customer service personnel.

	For the three months ended March 31.			
	2014	2013	Change	% Change
Sales and marketing	$ 2,633,000	$ 1,931,000	$ 702,000	36.4%
As a % of revenue	14.5%	12.3%		

Sales and marketing expenses increased approximately 36.4%, or $0.7 million to $2.6 million for the three months ended March 31, 2014 as compared to $1.9 million for the three months ended March 31, 2013, primarily due to increased salaries, commissions and related travel expenses based on an increase in sales and marketing employees. On March 31, 2014 we had 50 employees in our sales and marketing organization compared to 41 employees in our sales and marketing organization on March 31, 2013.

We expect our overall sales and marketing expenses to increase modestly with increased test volumes in 2014, but remain stable as a percentage of revenue. We hired three additional sales representatives during the first quarter and anticipate growing our sales force further in 2014.

General and Administrative Expenses

General and administrative expenses relate to billing, bad debts, finance, human resources, information technology and other administrative functions. They primarily consist of employee related costs (such as salaries, fringe benefits, and stock-based compensation expense), professional services, facilities expense, and depreciation and administrative-related costs allocated to general and administrative expenses.

	For the three months ended March 31.			
	2014	2013	Change	% Change
General and administrative	$ 5,054,000	$ 4,175,000	$ 879,000	21.1%
As a % of revenue	27.8%	26.7%		

General and administrative expenses increased approximately 21.1%, or $0.9 million to $5.1 million for the three months ended March 31, 2014 as compared to $4.2 million for the three months ended March 31, 2013. The increase in general and administrative expenses is primarily a result of adding billing and information technology personnel to support the increase in our testing volumes as well as increased facility costs and increased depreciation on fixed assets.

Bad debt expense increased by approximately 19.2%, or approximately $143,000 to $884,000 for the three months ended March 31, 2014 as compared to approximately $741,000 for the three months ended March 31, 2013. This increase was primarily the result of increased revenue for the three months ended March 31, 2014 compared to the three months ended March 31, 2013. Our bad debt rate as a percentage of revenue was 4.9% for the three months ended March 31, 2014 as compared to 4.7% last year. We have also seen an increase in denials for Molecular tests from commercial insurance payer s with the onset of the analyte specific CPT codes.

We expect our general and administrative expenses to increase as we add personnel, increase our billing and collections activities; incur additional expenses associated with the expansion of our facilities and backup systems; incur additional bad debt expense related to increasing sales, and as we continue to build our physical infrastructure to support our anticipated growth. However, we expect general and administrative expenses to continue to decline as a percentage of our revenue as our test volumes increase and as we continue to develop more operating leverage in our business.

Research and Development Expenses

Research and development (R&D) expenses relate to the cost of developing new proprietary and non-proprietary genetic tests. Our R&D team has been behind the expansion in our molecular testing menu. R&D expenses consist of payroll for our R&D staff, supplies cost, stock compensation expense, as well as cost related to our licensing agreement with Health Discovery Corporation, including amortization of the licensed technology.

	For the three months ended March 31.			
	2014	2013	Change	% Change
Research and development	$ 628,000	$ 835,000	$ (207,000)	(24.8)%
As a % of revenue	3.5%	5.3%		

Research and development expenses decreased approximately 24.8%, or $207,000 to $628,000 for the three months ended March 31, 2014 as compared to approximately $835,000 for the three months ended March 31, 2013. The decrease in research and development expenses is primarily the result of a reduction in stock compensation expense for non-employee stock options and warrants.

We expect our research and development expenses to fluctuate in future quarters because of increases or decreases in our stock price and the corresponding stock compensation expense for non-employee stock options and warrants.

Interest Income (Expense)

Interest income (expense) primarily consists of the interest expense we incur on our borrowing arrangements (primarily comprised of interest paid and payable on advances under our revolving credit facility with Capital Source and interest paid on capital lease obligations) offset by the interest income we earn on cash deposits. Net interest expense decreased by approximately $20,000 from approximately $285,000 for the three months ended March 31, 2013 to $265,000 for the three months ended March 31, 2014, reflecting lower borrowings on our revolving credit facility. This was partially offset by increased interest related to capital lease obligations as we leased additional equipment to support our growth.

Net Income

The following table provides the net income (loss) for each period along with the computation of basic and diluted net income (loss) per share for the three month periods ending March 31, 2014 and 2013:

	Three months ended March 31,	
(in thousands, except EPS)	2014	2013
Net income	$ 102	$ 3
Basic weighted average shares outstanding	49,277	46,264
Effect of potentially dilutive securities	4,192	4,659
Diluted weighted average shares outstanding	53,469	50,923
Basic EPS	$ 0.00	$ 0.00

Diluted EPS	$ 0.00	$ 0.00

Non-GAAP Measures

Adjusted EBITDA is defined by NeoGenomics as net income from continuing operations before (i) interest expense, (ii) tax expense, (iii) depreciation and amortization expense, (iv) non-cash stock-based compensation and warrant amortization expense and (v) other extraordinary or non-recurring charges. NeoGenomics believes that Adjusted EBITDA provides a more consistent measurement of operating performance and trends across reporting periods by excluding these cash and non-cash items of expense not directly related to ongoing operations from income. Adjusted EBITDA also assists investors in performing analysis that is consistent with financial models developed by research analysts.

Adjusted EBITDA as defined by NeoGenomics is not a measurement under GAAP and may differ from non-GAAP measures used by other companies. There are limitations inherent in non-GAAP financial measures such as Adjusted EBITDA because they exclude a variety of charges and credits that are required to be included in a GAAP presentation, and do not therefore present the full measure of NeoGenomics recorded costs against its net revenue. Accordingly, investors should consider non-GAAP results together with GAAP results in analyzing NeoGenomics financial performance.

The following is a reconciliation of GAAP net income to Non-GAAP EBITDA and Adjusted EBITDA for the three months ending March 31, 2014 and 2013:

	For the three months ended March 31,	
	2014	**2013**
Net income (Per GAAP)	$ 102,000	$ 3,000
Adjustments to Net Income:		
Interest expense (income), net	265,000	285,000
Amortization of intangibles	56,000	56,000
Depreciation of property and equipment	1,151,000	990,000
Income taxes	27,000	17,000
EBITDA (non-GAAP)	1,601,000	1,351,000
Further Adjustments to EBITDA:		
Non-cash stock-based compensation	84,000	443,000
Adjusted EBITDA (non-GAAP)	$ 1,685,000	$ 1,794,000

Trade Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable are reported, net of an allowance for doubtful accounts, which is estimated based on the aging of accounts receivable with each payer category and the historical data on bad debts in these aging categories. In addition, the allowance is adjusted periodically for other relevant factors, including regularly assessing the state of our billing operations in order to identify issues which may impact the collectability of receivables or allowance estimates. Revisions to the allowance are recorded as an adjustment to bad debt expense within general and administrative expenses. After appropriate collection efforts have been exhausted, specific receivables deemed to be uncollectible are charged against the allowance in the period they are deemed uncollectible. Recoveries of receivables previously written-off are recorded as credits to the allowance.

The following tables present the dollars and percentage of the Company s gross accounts receivable from customers outstanding by aging category at March 31, 2014 and December 31, 2013:

NEOGENOMICS AGING OF RECEIVABLES BY PAYER GROUP

March 31, 2014

r Group	0-30	%	31-60	%	61-90	%	91-120	%	>120	%	Total	%
t	$ 3,087,248	13%	$ 1,458,387	6%	$ 868,474	4%	$ 879,929	4%	$ 1,102,447	4%	$ 7,396,485	3
mercial rance	484,739	2%	780,872	3%	727,574	3%	558,706	2%	4,182,257	18%	6,734,148	2
icaid	15,311	0%	53,064	0%	78,236	0%	89,192	1%	561,264	2%	797,067	
icare	374,381	2%	497,692	2%	400,695	2%	394,940	1%	3,216,368	14%	4,884,076	2
te Pay	84,958	0%	(50,645)	0%	(26,735)	0%	12,142	0%	22,249	0%	41,969	
lled enue	3,976,548	17%		%		%		%		%	3,976,548	1
l	$ 8,023,185	34%	$ 2,739,370	11%	$ 2,048,244	9%	$ 1,934,909	8%	$ 9,084,585	38%	$ 23,830,293	10

December 31, 2013

Group	0-30	%	31-60	%	61-90	%	91-120	%	>120	%	Total	%
t	$ 2,716,164	11%	$ 1,728,152	7%	$ 1,232,594	6%	$ 581,713	3%	$ 905,057	4%	$ 7,163,680	
nercial nce	341,364	2%	985,446	4%	740,250	3%	557,269	2%	3,883,242	17%	6,507,571	
caid	21,509	0%	75,820	0%	76,713	0%	87,291	0%	285,383	2%	546,716	
care	349,224	2%	1,016,452	5%	1,169,982	5%	636,039	3%	3,057,915	13%	6,229,612	
e Pay	8,562	0%		%	11,459	0%	1,661	0%	88,416	0%	110,098	
led nue	2,634,940	11%		%		%		%		%	2,634,940	
	$ 6,071,763	26%	$ 3,805,870	16%	$ 3,230,998	14%	$ 1,863,973	8%	$ 8,220,013	36%	$ 23,192,617	1

The following table represents our allowance balances at each balance sheet date presented and that allowance as a percentage of gross accounts receivable:

	March 31, 2014	December 31, 2013	Change
Allowance for doubtful accounts	$ 4,569,000	$ 4,540,000	$ 29,000
As a % of total accounts receivable	19.2%	19.6%	

At March 31, 2014 our allowance for doubtful accounts increased $29,000 as compared to December 31, 2013. The increase is attributed to the overall increase in our accounts receivable balance. As a percentage of total accounts receivable the allowance for doubtful accounts decreased to 19.2% at March 31, 2014 from 19.6% at December 31, 2013. This decline was related to an increase in the amount of accounts receivable that is between 0-30 days because

the amount of allowance reserved on current balances is lower than the amount of allowance reserved on balances that are aged out further.

Liquidity and Capital Resources

The following table presents a summary of our cash flows provided by (used in) operating, investing and financing activities for the three months ended March 31, 2014 and 2013 as well as the period ending cash and cash equivalents and working capital.

	For the three months ended March 31.	
	2014	2013
Net cash provided by (used in):		
Operating activities	$ 1,025,000	$ (1,330,000)
Investing activities	(883,000)	(239,000)
Financing activities	409,000	4,329,000
Net increase in cash and cash equivalents	551,000	2,760,000
Cash and cash equivalents, beginning of period	4,834,000	1,868,000
Cash and cash equivalents, end of period	$ 5,385,000	$ 4,628,000
Working Capital (1), end of period	$ 12,920,000	$ 10,794,000

(1) Defined as current assets current liabilities.

Our net cash provided by operating activities is driven primarily by our profitability and the impact of depreciation and bad debt expense on cash flows partially offset by an increase in our accounts receivable balance. Our accounts receivable balance usually increases significantly in the first quarter as most patients have not yet reached their deductible limits for the year, which results in an increased amount of billing and collection activity with individual patients.

We have also used approximately $883,000 in cash to purchase or develop property and equipment during the first quarter of 2014. This included capital outlays for our new Fort Myers laboratory redesign and costs related to our Laboratory Information System.

Our cash provided from financing activities for the three months ended March 31, 2014 consisted primarily of takedowns on our revolving credit facility with Capital Source and proceeds from the exercise of warrants during the first quarter partially offset by repayments on capital leases.

On March 26, 2012, the Parent Company, NeoGenomics Laboratories (together with the Parent Company, the Borrower), and CapitalSource Finance LLC (Capital Source) entered into a First Amendment (the Amendment) to the Amended and Restated Revolving Credit and Security Agreement, dated April 26, 2010 (the Amended and Restated Credit Agreement or the Credit Facility). The Amended and Restated Credit Agreement amended and restated the original Revolving Credit and Security Agreement dated February 1, 2008, as amended, by and among the Parent Company, Borrower and CapitalSource (the Original Credit Agreement). The terms of the Amendment and the Amended and Restated Credit Agreement are substantially similar except that the Amendment, among other things:

I.) Increased the maximum principal amount of the revolving credit facility (the Facility Cap) to $8.0 million from $5.0 million; provided, that the Borrower may request to increase the Facility Cap twice during the term of the Amended and Restated Credit Agreement in increments of $1.0 million to a maximum of $10,000,000;

II.) Extended the term of the Amended and Restated Credit Agreement to March 26, 2015;

III.) Revised the definition of Minimum Termination Fee to be:

a. 2.5% of the Facility Cap if the Revolver Termination (as defined in the Agreement) is at any time before March 26, 2013;

b. 1.5% of the Facility Cap if the Revolver Termination is after March 26, 2013 but before March 26, 2014;

c. 0.5% of the Facility Cap if the Revolver Termination is on or after March 26, 2014; and

d. That there shall be no Minimum Termination Fee if the Revolver Termination occurs within five (5) days of the end of the term.

IV.) Modified the definition of Permitted Indebtedness and Fixed Charge Coverage Ratio ; and

V.) Amended Section 3.1 of the Amended and Restated Credit Agreement by deleting the LIBOR shall be not less than 2.0% and replacing it with the LIBOR shall be not less than 1.0% .

We paid Capital Source a commitment fee of $80,000 in connection with the Amendment.

On July 27, 2012 the Facility Cap was increased from $8.0 million to $9.0 million.

On January 25, 2013 the Borrower and CapitalSource entered into a Second Amendment (the Second Amendment) to the Amended and Restated Credit Agreement. The terms of the Second Amendment:

I.) Increased the Facility Cap to $10.0 million from $9.0 million; provided, that the Borrower may request to increase the Facility Cap twice during the term of the Amended and Restated Credit Agreement in increments of $1.0 million to a maximum of $12,000,000 on or after January 31, 2013;

II.) Amended Annex 1 of the Credit Facility as follows:

a) Deleted Section 2 of the Annex 1 in its entirety and replaced it with the following:

2. Minimum Cash Velocity

For each Test Period, measured as of the last day of each calendar month ending on or after December 31, 2012, Collections of Accounts of Borrowers collectively shall not be less than the Cash Velocity Percentage of Borrowers net revenue for the Revenue Period less the bad debt expense recognized on the income statement for such Revenue Period.

b) Added the following definition to the definitions set forth in such Annex in the appropriate alphabetic order:

Cash Velocity Percentage means (a) 80% for the period beginning December 31, 2012 and ending on March 31, 2013 and (b) 87.5% at all other times.

We paid Capital Source a commitment fee of $10,000 in connection with the Second Amendment.

On January 24, 2014 the Borrower and CapitalSource entered into a Third Amendment (the Third Amendment) to the Amended and Restated Credit Agreement. The terms of the Third Amendment amended the Annex I of the credit agreement to delete the definition of Cash Velocity Percentage in its entirety and to replace it with the following:

Cash Velocity Percentage shall mean (a) 80% for the period beginning December 31, 2012 and ending on March 31, 2013, (b) 75% for the period beginning December 1, 2013 and ending on March 31, 2014 and (c) 87.5% at all other times.

We paid Capital Source a commitment fee of $5,000 in connection with the Third Amendment.

As of March 31, 2014 we are in compliance with all covenants to the Credit Facility.

We had over $9.6 million in cash on hand and borrowing capacity as of March 31, 2014. We had unrestricted cash on hand of approximately $5.4 million as of March 31, 2014, and the available credit under the Credit Facility was approximately $4.2 million. The outstanding borrowing under our credit facility was $4.9 million after netting compensating cash on hand. As such, we believe we have adequate resources to meet our operating commitments.

Capital Expenditures

We currently forecast capital expenditures in order to execute on our business plan. The amount and timing of such capital expenditures will be determined by the volume of business, but we currently anticipate that we will need to purchase approximately $6.0 million to $7.5 million of additional capital equipment, software and leasehold improvements during the next year. We plan to fund these expenditures with capital lease financing arrangements, cash, and through bank loan facilities. If we are unable to obtain such funding, we will need to pay cash for these items.

Related Party Transactions

Consulting Agreements

During both the three month periods ended March 31, 2014 and 2013, Steven C. Jones, a director of the Company, earned approximately $62,500 for various consulting work performed in connection with his duties as Executive Vice President of Finance. Mr. Jones also received $47,500 and $55,000 during the three months ended March 31, 2014 and 2013 as payment of his annual bonus compensation for the previous fiscal years, respectively.

ITEM 3 Quantitative and Qualitative Disclosures About Market Risk

We do not invest in or trade instruments which are sensitive to market risk. We also do not have any material foreign operations or foreign sales so we have no exposure to foreign currency exchange rate risk.

We do have exposure to both rising and falling interest rates on our Revolving Credit Facility with CapitalSource Bank. At March 31, 2014, advances of approximately $4.9 million under our Revolving Credit Facility Agreement with CapitalSource Bank were subject to interest charges based on the 12 month LIBOR rates plus 3.25% and the LIBOR rate is capped at a minimum of 1%.

As such, a one percentage point increase in LIBOR rates would increase our monthly interest expense by $4,083 and a decrease from current LIBOR rates would have no impact on our monthly interest expense as LIBOR is currently less than the 1% Cap on the agreement.

See Note C to the Consolidated Financial Statements contained herein for information on our revolving credit facility.

We have exposure to market risk on the lease rate factor of our Equipment Line with Pacific Western Equipment Finance. The lease rate factor is based on the 36 month interest swap rates. The lease rate factor will increase .000069966 for each five basis point increase in the 36 month interest swap rates. The interest rate will be fixed upon final acceptance of the lease.

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 s rules and forms, and that such information is accumulated and communicated to our management, including our principal executive officer, principal financial officer, and principal accounting 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, principal financial officer, and principal accounting officer, of the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, our principal executive officer, principal financial officer, and principal accounting officer concluded that our disclosure controls and procedures were effective at a reasonable assurance level as of the end of the period covered by this report.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during the three months ended March 31, 2014 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II OTHER INFORMATION

ITEM 1 LEGAL PROCEEDINGS

From time to time the Company is engaged in legal proceedings in the ordinary course of business. We do not believe any current legal proceedings are material to our business. No material proceedings were terminated during the quarter ended March 31, 2014.

ITEM 1A RISK FACTORS

Current and prospective investors are encouraged to review 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 on February 24, 2014.

ITEM 2 UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None

ITEM 3 DEFAULTS UPON SENIOR SECURITIES

Not Applicable

ITEM 4 MINE SAFETY DISCLOSURES

Not Applicable

ITEM 5 OTHER INFORMATION

None

ITEM 6 EXHIBITS

EXHIBIT NO.	DESCRIPTION
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
31.3	Certification by Principal Accounting 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, Principal Financial Officer and Principal Accounting Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101	The following materials from the Company s Quarterly Report on Form 10-Q for the quarter ended March 31, 2014 formatted in Extensible Business Reporting Language (XBRL): (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Operations, (iii) the Consolidated Statements of Cash Flows and (iv) related notes.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: May 12, 2014

NEOGENOMICS, INC.

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

By: */s/ George Cardoza*
Name: George Cardoza
Title: Chief Financial Officer

By: */s/ Edwin F. Weidig III*
Name: Edwin F. Weidig III
Title: Director of Finance and
Principal Accounting Officer