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NEOGENOMICS INC
Form 10QSB
August 11, 2005

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

FORM 10-QSB

(X) Quarterly report pursuant to Section 13 or 15(d) of the Securities and Exchange Act of 1934.

For the quarterly period ended June 30, 2005.

() Transition report pursuant to Section 13 or 15(d) of the Exchange Act for the transition period from _____ to _____.

Commission File Number: 333-72097

NeoGenomics, Inc.

(Exact name of registrant as specified in charter)

Nevada

(State or other jurisdiction of
incorporation or organization)

74-2897368

(I.R.S. Employer Identification No.)

12701 Commonwealth Drive, Suite 9, Fort Myers, FL 33913

(Address of principal executive offices)

(239) 768-0600

(Registrant's Telephone Number, Including Area Code)

Check 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 ()

State the number of shares outstanding of each of the issuer's classes of common equity, as of August 10, 2005.

22,498,252

Transitional Small Business Disclosure Format:

YES () NO (X)

NeoGenomics, Inc.

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PART I

FORWARD-LOOKING STATEMENTS

This Form 10-QSB contains "forward-looking statements" relating to NeoGenomics, Inc., a Nevada corporation (referred to individually as the "Parent Company" or collectively with all of its subsidiaries as the "Company" in this Form 10-QSB), which represent the Company's current expectations or beliefs including, but not limited to, statements concerning the Company's operations, performance, financial condition and growth. For this purpose, any statements contained in this Form 10-QSB that are not statements of historical fact are forward-looking statements. Without limiting the generality of the foregoing, words such as "may", "anticipation", "intend", "could", "estimate", or

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"continue" or the negative or other comparable terminology are intended to identify forward-looking statements. These statements by their nature involve substantial risks and uncertainties, such as credit losses, dependence on management and key personnel, variability of quarterly results, and the ability of the Company to continue its growth strategy and competition, certain of which are beyond the Company's control. Should one or more of these risks or uncertainties materialize or should the underlying assumptions prove incorrect, actual outcomes and results could differ materially from those indicated in the forward-looking statements.

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

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NeoGenomics, Inc.

**CONSOLIDATED BALANCE SHEET AS OF
June 30, 2005
(unaudited)**

ASSETS

CURRENT ASSETS:

Cash and cash equivalents	\$ 21,258
Accounts receivable (net of allowance for doubtful accounts of \$13,137)	278,377
Inventories	30,373
Other current assets	<u>29,676</u>

Total current assets 359,684

PROPERTY AND EQUIPMENT (net of accumulated
depreciation of \$193,001)

413,056

OTHER ASSETS

20,700

TOTAL

\$ 793,440
=====

LIABILITIES AND STOCKHOLDERS' DEFICIT

CURRENT LIABILITIES:

Accounts payable	\$ 136,397
Deferred revenue	110,000
Accrued and other liabilities	<u>19,173</u>

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Total current liabilities	265,570
LONG TERM LIABILITIES (net of unamortized discount of \$113,508)	<u>1,016,943</u>
TOTAL LIABILITIES	<u>1,282,513</u>
STOCKHOLDERS' DEFICIT:	
Common stock, \$.001 par value, 100,000,000 shares authorized; 22,498,252 shares issued and outstanding	22,498
Additional paid-in capital	9,908,199
Deficit	<u>(10,419,770)</u>
Total stockholders' deficit	<u>(489,073)</u>
TOTAL	\$ 793,440 =====

See notes to consolidated financial statements.

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NeoGenomics, Inc.

CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited)

	For the Six-Months Ended <u>June 30, 2005</u>	For the Six-Months Ended <u>June 30, 2004</u>	For the Three-Months Ended <u>June 30, 2005</u>
REVENUE	\$ 575,080	\$ 300,396	\$ 344,888
COST OF REVENUE	<u>370,518</u>	<u>284,359</u>	<u>193,680</u>
GROSS (DEFICIT) PROFIT	<u>204,562</u>	<u>16,037</u>	<u>151,208</u>
OPERATING EXPENSES:			
Selling, general and administrative	521,888	310,420	280,542
Interest expense	<u>79,205</u>	<u>43,969</u>	<u>52,024</u>
Total operating expenses	<u>601,093</u>	<u>354,389</u>	<u>332,566</u>
NET INCOME (LOSS)	\$ (396,531) =====	\$ (338,352) =====	\$ (181,358) =====
NET INCOME (LOSS) PER SHARE -			
Basic and Diluted	\$ (0.02) =====	\$ (0.02) =====	\$ (0.01) =====
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING -			
Basic and Diluted	21,952,046	18,625,680	22,157,538

See notes to consolidated financial statements.

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NeoGenomics, Inc.

**CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)**

	For the Six-Months Ended <u>June 30, 2005</u>	For the Six-Months Ended <u>June 30, 2004</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (396,531)	\$ (338,352)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	55,688	39,901
Equity-based compensation	59,840	-
Provision for bad debts	30,077	9,041
Amortization of debt issue costs	7,275	-
Changes in assets and liabilities, net:		
(Increase) decrease in accounts receivables, net of write-offs	(251,963)	4,475
(Increase) decrease in inventory	(15,251)	957
(Increase) decrease in pre-paid expenses	5,765	(1,099)
(Increase) decrease in other current assets	3,474	894
(Increase) decrease in deposits	1,500	5,000
Increase (decrease) in accounts payable and other liabilities	<u>(13,086)</u>	<u>(35,395)</u>
NET CASH USED IN OPERATING ACTIVITIES	<u>(513,212)</u>	<u>(314,578)</u>
CASH FLOWS FROM INVESTING ACTIVITIES -		
Purchases of property and equipment	<u>(75,708)</u>	<u>(13,437)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Advances from affiliates, net	390,451	149,215
Debt issue costs	(53,587)	-
Issuances of common stock, net of transaction expenses	<u>160,766</u>	<u>344,629</u>
NET CASH PROVIDED BY FINANCING ACTIVITIES	<u>497,630</u>	<u>493,844</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	(91,290)	165,829
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	<u>112,548</u>	<u>25,051</u>
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 21,258	\$ 190,880

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:

Interest paid	\$ 51,309	\$ 52,651
	=====	=====
Income taxes paid	\$ -	\$ -
	=====	=====

See notes to consolidated financial statements.

NeoGenomics, Inc.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)**

NOTE A - ORGANIZATION AND DESCRIPTION OF BUSINESS

NeoGenomics, Inc. ("NEO") was incorporated under the laws of the state of Florida on June 1, 2001 and on November 14, 2001 agreed to be acquired by American Communications Enterprises, Inc., a Nevada corporation ("ACE"). As a result of the acquisition, NEO became the operating subsidiary of ACE. ACE was formed in 1998 and succeeded to NEO's name on January 3, 2002 (collectively NEO and ACE are referred to as "NeoGenomics", the "Company", "we", "us", or "our" throughout this Form 10-QSB).

On April 4, 2003, we amended our Articles of Incorporation to (1) effect a one-for-100 reverse split of our common stock, (2) reduce the authorized number of common shares from 500,000,000 to 100,000,000, and (3) authorize 10,000,000 shares of preferred stock for future issuance, with such terms, restrictions and limitations as may be established by the Board of Directors.

As a result of the above, all references to the number of shares and par value in the accompanying consolidated financial statements and notes thereto have been adjusted to reflect the April 2003 reverse stock split as though it had been completed as of January 1, 2003.

Basis of Presentation

Our accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and the instructions to Form 10-QSB and Rule 10-1 of Regulation S-X of the Securities and Exchange Commission (the "SEC"). Accordingly, these consolidated financial statements do not include all of the footnotes required by accounting principles generally accepted in the United States of America. In our opinion, all adjustments (consisting of normal and recurring adjustments) considered necessary for a fair presentation have been included. Operating results for the three and six months ended June 30, 2005 are not necessarily indicative of the results that may be expected for the year ended December 31, 2005. The accompanying consolidated financial statements and the notes thereto should be read in conjunction with

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our audited consolidated financial statements as of and for the year ended December 31, 2004 contained in our Form 10-KSB.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of NEO and ACE. All significant intercompany accounts and balances have been eliminated in consolidation.

Revenue Recognition

Net revenues are recognized in the period when tests are performed and consist primarily of net patient revenues that are recorded based on established billing rates less estimated discounts for contractual allowances principally for patients covered by Medicare, Medicaid and managed care and other health plans. These revenues also are subject to review and possible audit by the payers. We believe that adequate provision has been made for any adjustments that may result from final determination of amounts earned under all the above arrangements. There are no known material claims, disputes or unsettled matters with any payers that are not adequately provided for in the accompanying consolidated financial statements.

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Accounts Receivable and Allowance for Doubtful Accounts

We record accounts receivable net of estimated and contractual discounts. We provide for accounts receivable that could become uncollectible in the future by establishing an allowance to reduce the carrying value of such receivables to their estimated net realizable value. We estimate this allowance based on the aging of our accounts receivable and our historical collection experience for each type of payer. Bad debts are charged off to the allowance account at the time they are deemed uncollectible.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires us to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. The reported amounts of revenues and expenses during the reporting period may be affected by the estimates and assumptions we are required to make. Estimates that are critical to the accompanying consolidated financial statements include estimates related to contractual adjustments, and the allowance for doubtful accounts. It is at least reasonably possible that our estimates could change in the near term with respect to these matters.

NOTE B - LIQUIDITY

Our consolidated financial statements were prepared using accounting principles generally accepted in the United States of America applicable to a going concern, which contemplates the realization of assets and liquidation of liabilities in the normal course of business. At December 31, 2004, we had working capital and stockholders' deficits of approximately \$822,000 and \$426,000 respectively. However, subsequent to December 31, 2004, we enhanced our

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working capital as we refinanced our short-term indebtedness of \$740,000 included in current liabilities with indebtedness that does not mature until March 31, 2007 (see Note C). We believe this debt facility, which allows for unsecured borrowings of \$1,000,000 after April 30, 2005, and improving operations, will provide adequate capital to fund our operations and growth for 2005 and beyond. At June 30, 2005, we had a working capital surplus of \$94,114. As such, our consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts and classification of liabilities that might be necessary should we be unable to continue as a going concern.

NOTE C - RELATED PARTY TRANSACTIONS

During the six months ending June 30, 2005, and FY 2004, the Company incurred consulting expenses from a director of \$32,500 and \$56,000, respectively, for various consulting work performed in connection with managing the financial affairs of the Company and acting as the Principle Financial Officer.

On March 11, 2005 we entered into an agreement with HCSS, LLC and eTelenext, Inc. to provide eTelenext, Inc's Accessioning Application, AP Anywhere Application and CMQ Application. HCSS, LLC is a holding company created to build a small laboratory network for the 50 small commercial genetics laboratories in the United States. HCSS, LLC is owned 66.7% by Dr. Michael T. Dent, our Chairman. By becoming the first customer of HCSS in the small laboratory network, the Company is saving approximately \$152,000 in up front licensing fees. Under the terms of the agreement, the Company is required to pay \$22,500 over three months to customize this software and will pay an annual membership fee of \$6,000 per year and monthly transaction fees of between \$10.00 - \$2.50 per completed test, depending on the volume of tests performed. The eTelenext system is an elaborate laboratory information system (LIS) that is in use at many larger labs. By assisting in the formation of the small laboratory network, the Company will be able to increase the productivity of its technologists and have on-line links to other small labs in the network in order to better manage its workflow.

On March 23, 2005, we entered into an agreement with Aspen Select Healthcare, LP (formerly known as MVP 3, LP) to refinance our existing

indebtedness of \$740,000 and provide for additional liquidity of up to \$760,000 to the Company. Under the terms of the agreement, Aspen Select Healthcare, LP ("Aspen"), a Naples, Florida-based private investment fund will make available up to \$1.5 million of debt financing in the form of a revolving credit facility (the "Credit Facility") with an initial maturity of March 31, 2007. Aspen is managed by its General Partner, Medical Venture Partners, LLC, which is controlled by a director of NeoGenomics. We incurred \$53,587 of transaction expenses in connection with establishing the Credit Facility, which have been capitalized and are being amortized to interest expense over the term of the agreement.

Under the terms of the Credit Facility, we are able to borrow up to 80% of "eligible" accounts receivable, 50% of our net furniture and equipment balance, secured by substantially all of our assets, and up to \$500,000 on an unsecured basis until April 30, 2005 and up to \$1,000,000 on an unsecured basis after

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April 30, 2005. The interest rate on the Credit Facility is prime + 6.0%, payable monthly in arrears. With respect to this agreement, we are subject to the following restrictive covenants: (i) we are not to incur indebtedness outside of this agreement in excess of \$50,000 without written authorization of Aspen, (ii) we cannot declare or pay any dividend on our common stock, and (iii) we are also subject to other general covenants typical of an instrument of this kind. In addition, as a condition to these transactions, the Company, Aspen and certain individual shareholders agreed to amend and restate their shareholders' agreement to provide that Aspen will have the right to appoint up to three of seven of our directors and one mutually acceptable independent director. We also amended and restated the Registration Rights Agreement with Aspen and certain individual shareholders, which grants to Aspen certain demand registration rights and which grants to all parties to the agreement, piggyback registration rights. As part of the Credit Facility transaction, the Company also issued to Aspen a five year Warrant to purchase up to 2,500,000 shares of its common stock at an exercise price of \$0.50/share (which we anticipate will result in us recording stock based interest expense in 2005 and beyond). We have accrued \$131,337 for the value of such Warrant as of the original commitment date as a discount to the face amount of the Credit Facility. The Company is amortizing such discount to interest expense over the 24 month of the Credit Facility.

NOTE D - EQUITY FINANCING TRANSACTIONS

During 2004, we sold 3,040,000 shares of our common stock in a series of private placements at \$0.25 per share to unaffiliated third party investors. These transactions generated net proceeds to the Company of approximately \$740,000 after deducting certain transaction expenses.

On January 3, 2005, we issued 27,288 shares of common stock under the Company's 2003 Equity Incentive Plan to two employees of the Company in satisfaction of \$6,822 of accrued, but unpaid vacation.

During the six months ending June 30, 2005, we sold 522,382 shares of our common stock in a series of private placements at \$0.30 per share and \$0.35 per share to unaffiliated third party investors. These transactions generated net proceeds to the Company of approximately \$171,000.

On June 6, 2005, we entered into a Standby Equity Distribution Agreement with Cornell Capital Partners, LP ("Cornell"). Pursuant to the Standby Equity Distribution Agreement, the Company may, at its discretion, periodically sell to Cornell shares of common stock for a total purchase price of up to \$5.0 million. For each share of common stock purchased under the Standby Equity Distribution Agreement, Cornell will pay the Company 98% of the lowest volume weighted average price ("VWAP") of the Company's common stock as quoted by Bloomberg, LP on the Over-the-Counter Bulletin Board or other principal market on which the Company's common stock is traded for the 5 days immediately following the notice date (the "Purchase Price"). The total number of shares issued to Cornell under each advance request will be equal to the total dollar amount of the advance request divided by the Purchase Price determined during the five day pricing period. Cornell will also retain 5% of each advance under the Standby Equity Distribution Agreement. Cornell's obligation to purchase shares of the Company's common stock under the Standby Equity Distribution Agreement is subject to certain conditions, including the Company obtaining an effective registration statement for shares of common stock sold under the Standby Equity Distribution Agreement and is limited to \$750,000 per weekly advance. The amount and timing

of all advances under the Standby Equity Distribution Agreement are at the discretion of the Company and the Company is not obligated to issue and sell any securities to Cornell, unless and until it decides to do so. Upon execution of the Standby Equity Distribution Agreement, Cornell received 381,888 shares of the Company's common stock as a commitment fee under the Standby Equity Distribution Agreement. The Company also issued 27,278 shares of the Company's common stock to Spartan Securities Group, Ltd. under a placement agent agreement relating to the Standby Equity Distribution Agreement.

On July 28, 2005 we filed an amended SB-2 registration statement with the Securities and Exchange Commission to register 10,000,000 shares of our common stock related to the above. Such registration statement became effective as of August 1, 2005.

End of Financial Statements

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Item 2. - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

NeoGenomics, Inc. operates a medical testing laboratory and research facility based in Fort Myers, Florida that is targeting the rapidly growing genetic and molecular testing segment of the medical laboratory market. Our common stock is listed on the NASDAQ Over-the-Counter Bulletin Board (the "OTCBB") under the symbol "NGNM." Our business plan features two concurrent objectives:

1. Development of a clinical laboratory to offer routine cytogenetics, FISH, Flow Cytometry and molecular biology testing services; and
2. Development of a research laboratory to offer sponsored research services to other companies that are seeking to develop genomic products that will determine the genetic basis for female and neonatal diseases, cancers and other forms of disease.

The vision of NeoGenomics is to merge a high-end genetic and molecular testing laboratory with ongoing research activities to help bridge the gap between clinical medicine and genomic research. We believe that this combination could allow the Company to speed the process of discovery and innovation and develop new advanced testing methods to identify the genetic and molecular causes of disease. Over the last five years, advances in technology and genetic research, including the complete sequencing of the human genome, have made possible a whole new set of tools to diagnose and treat diseases. This has opened up a vast opportunity for laboratory companies that are positioned to address this growing market segment.

The medical testing laboratory market can be broken down into three primary segments:

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- o clinical lab testing,
- o anatomic pathology testing, and
- o genetic/molecular testing.

Clinical labs typically are engaged in high volume, high automation tests on blood and urine. Clinical lab tests often involve testing of a less urgent nature, for example, cholesterol testing and testing associated with routine physical exams. This type of testing yields relatively low average revenue per test. Anatomic pathology ("AP") testing involves evaluation of tissue, as in surgical pathology, or cells as in cytopathology. AP testing typically seeks to answer the question: is it cancer? The most widely known AP tests are Pap smears, skin biopsies, and tissue biopsies. AP tests are typically more labor and technology intensive than clinical lab tests and thus typically have higher average revenue per test than clinical lab tests.

We believe genetic/molecular testing is the newest and fastest growing subset of the laboratory market. Genetic testing or "cytogenetics" involves analyzing chromosomes taken from the nucleus of cells for abnormalities in a process called karyotyping. A karyotype evaluates the entire 46 human chromosomes by number, and banding patterns to identify abnormalities associated with diseases. Examples of cytogenetics testing include bone marrow testing to diagnose various types of leukemia and lymphoma, and amniocentesis testing of pregnant women to diagnose genetic anomalies such as Down syndrome in a fetus. Molecular biology involves testing for even more specific causes of diseases based on very small alterations in cellular biology and DNA. Examples of common molecular biology testing include screening for paternity, cystic fibrosis or Tay-Sachs disease.

Both cytogenetics and molecular biology have become important and highly-accurate diagnostic tools over the last five years. New tests are being developed rapidly, thus this market segment is expanding rapidly. Genetic/molecular testing requires very specialized equipment and credentialed individuals (typically PhD level) to certify the results. The following chart

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shows the differences between the genetic/molecular segment and other segments of the medical laboratory testing market. Up until about five years ago, the genetic/molecular segment was considered to be part of the Anatomic Pathology segment, but given its rapid growth, many industry veterans now break genetic/molecular testing out into its own segment.

Comparison of the Medical Testing Laboratory Market Segments:

<u>Attributes</u>	<u>Clinical</u>	<u>Anatomic Pathology</u>	<u>Genetic/Molecular</u>
Testing Performed On	Blood, Urine	Tissue/Cells	Chromosomes/Molecules
Volume	High	Low	Low
Physician Involvement	Low	High - Pathologist	Low
Malpractice Ins. Required	Low	High	Low
Other Professionals Req.	None	None	Cyto/Molecular genetics
Level of Automation	High	Low-Moderate	Moderate
Diagnostic in Nature	Usually Not	Yes	Yes
Types of Diseases Tested	Many Possible	Primarily to Rule out Cancer	Rapidly Growing
Typical Price/Test (1)	\$5 - \$35/Test	\$25 - \$500/Test	\$200 - \$1,000/Test
Estimated Size of Market	\$25 - \$30 Billion	\$8.0 - \$10.0 Billion	\$3.0 - \$4.0 Billion
Est. Growth Rate of Market	4.0 -5.0% Annually	6.0 - 7.0% Annually	25.0 +% Annually

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Established Competitors	Quest Diagnostics LabCorp Bio Reference Lab Specialty Labs DSI Laboratories Hospital Labs	Quest Diagnostics LabCorp/US Labs Genzyme/Impath Ameripath Local Pathologists	Genzyme Genet Quest Diagnos LabCorp/Esote Major Univers
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Source: Research Analysts and Company Estimates

(1) Estimated Revenue/Test is for the technical component of such tests and does not include revenue for the professional component or interpretation of such tests.

Our initial focus is on the oncology and advanced natology testing markets. We target oncologists that perform bone marrow sampling and obstetricians and perinatologists that perform amniocentesis testing and other natology screening tests. Historically, our clients have been predominantly located in Florida. Beginning in January 2005, based on the experience of our new President, we began targeting large institutional clients in the Eastern United States. As we grow, we anticipate offering additional tests that will allow us to more broadly penetrate the oncology and advanced natology testing markets as well as broaden our focus from genetic and molecular biology testing to more traditional types of anatomic pathology testing that are complementary to our current test offerings.

We compete in the marketplace based on the quality and accuracy of our test results, our turn-around times and our ability to provide after-test support to those physicians requesting consultation. We believe our average 3-5 day turn-around times on oncology-related cytogenetics tests is among the best in the industry and is helping to increase the usage patterns of cytogenetics tests by our referring oncologists and hematopathologists. Based on anecdotal information, we believe that most competing cytogenetics labs typically have 7-21 day turn-around times on average. Traditionally, longer turn-around times for cytogenetics tests have resulted in fewer tests being ordered since there is an increased chance that the test results will not be returned within an acceptable diagnostic window when other adjunctive diagnostic test results are available. We believe our turn-around times are resulting in our referring physicians requesting more of our testing services in order to augment or confirm other diagnostic tests, thereby giving us a significant competitive advantage in marketing our services against those of other competing laboratories.

We have an opportunity to add additional types of tests to our product offering. We believe that by doing so we may be able to capture increases in our testing volumes through our existing customer base as well as more easily attract new customers via the ability to bundle our testing services more appropriately to the needs of the market. For instance, initial testing for most

hematological cancers yields total revenue ranging from approximately \$1,500 - \$2,500/case and is generally comprised of cytogenetic, fluorescence in-situ hybridization (FISH), flow cytometry, and morphology testing. Until recently, we only performed cytogenetic testing in-house, which averaged approximately \$500 of revenue per case. In December 2004, we added FISH testing to our product

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offering, and in February 2005, we began offering flow cytometry testing services. We believe that with the addition of these two new testing platforms, we will nearly double our average revenue per oncology case.

We believe this bundled offering approach could drive large increases in our revenue and afford the Company significant synergies and efficiencies in our operations, sales and marketing activities.

	<u>Avg. Rev/Test</u>
Cytogenetics	\$400-\$600
Fluorescence In Situ Hybridization (FISH)	\$200-\$400
Flow cytometry	
- Technical component	\$400-\$600
- Professional component	\$100-\$200
Morphology	<u>\$400-\$700</u>
Total	\$1,500-\$2,500

The cytogenetics and molecular biology testing markets in general can be seasonal and the volumes of such tests tend to decline somewhat in the summer months as referring physicians and their patients are vacationing. In southern Florida, currently our primary referral market for lab tests, this seasonality is further exacerbated because a meaningful percentage of the population returns to homes in the Northern U.S. to avoid the hot summer months. We estimate that our growth rates during the second and third quarter of each year will be somewhat impacted by these seasonality factors.

The following discussion and analysis should be read in conjunction with the financial statements for the three months ended June 30, 2005, included with this Form 10-QSB. Readers are also referred to the cautionary statement, which addresses forward-looking statements made by us.

Critical Accounting Policies

The preparation of financial statements in conformity with United States generally accepted accounting principles requires our management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Our management routinely makes judgments and estimates about the effects of matters that are inherently uncertain.

Our critical accounting policies are those where we have made difficult, subjective or complex judgments in making estimates, and/or where these estimates can significantly impact our financial results under different assumptions and conditions. Our critical accounting policies are:

- o Revenue Recognition
- o Accounts Receivable

Revenue Recognition

Net revenues are recognized in the period when tests are performed and consist primarily of net patient revenues that are recorded based on established billing rates less estimated discounts for contractual allowances principally for patients covered by Medicare, Medicaid and managed care and other health plans. These revenues also are subject to review and possible audit by the

payers. We believe that adequate provision has been made for any adjustments that may result from final determination of amounts earned under all the above arrangements. There are no known material claims, disputes or unsettled matters with any payers that are not adequately provided for in the accompanying consolidated financial statements.

Accounts Receivable

We record accounts receivable net of estimated and contractual discounts. We provide for accounts receivable that could become uncollectible in the future by establishing an allowance to reduce the carrying value of such receivables to their estimated net realizable value. We estimate this allowance based on the aging of our accounts receivable and our historical collection experience for each type of payer. Bad debts are charged off to the allowance account at the time they are deemed uncollectible.

Results of Operations for the Three Months ended June 30, 2005 as Compared to the Three Months ended June 30, 2004

During the three months ended June 30, 2005, our revenues increased approximately 184% to \$345,000 from \$122,000 during the three months ending June 30, 2004, primarily as a result of attracting new customers to our services and increasing the volume of services sold to existing customers. During the three months ending June 30, 2005, our cost of revenue increased approximately 40% to \$194,000 from \$138,000 during the three months ending June 30, 2004, primarily as a result of additional costs associated with hiring more laboratory personnel to support our increased testing volumes as well as increased costs as a result of opening new lines of business. This resulted in an increase of \$168,000 in our gross profit to approximately \$151,000 for the three months ended June 30, 2005 from a gross deficit of approximately \$17,000 during the three months ended June 30, 2004. This change is primarily attributable to our increased revenues and testing volumes for the period ended June 30, 2005 as compared to the three month period ended June 30, 2004.

During the three months ended June 30, 2005, our selling, general and administrative expenses increased by approximately 118% to approximately \$281,000 from approximately \$129,000 in the three months ended June 30, 2004. This increase was primarily as a result of higher personnel and personnel-related expenses associated with increased levels of staffing. Selling, general and administrative expenses include all of our overhead and technology expenses as well as the cost of our management and sales personnel. Interest expense for the most recent quarter increased approximately 124% to approximately \$52,000 from approximately \$23,000 for the three months ended June, 2004. Interest expense is mainly comprised of interest payable on advances under our Credit Facility from Aspen, which have increased as a result of our increased borrowing. In addition, in connection with our new credit facility, discussed below in "Liquidity and Capital Resources," we recorded \$131,337 of a debt discount for the issuance of warrants and we incurred \$53,587 of financing costs. These amounts are being amortized to interest expense over the 24 month period of the new credit facility. Thus interest expense for the three months ending June 30, 2005, includes approximately \$23,000 of non-cash charges in connection with the amortization of this debt discount and financing costs which were not included in interest expense during the three months ended June 30, 2005.

As a result of the foregoing, our net loss for the three months ended June

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30, 2005 increased approximately 8% to approximately \$181,000 from approximately \$169,000 during the three months-ended June 30, 2004.

Results of Operations for the Six Months ended June 30, 2005 as Compared to the Six Months ended June 30, 2004

During the six months ended June 30, 2005, our revenues increased approximately 91% to \$575,000 from \$300,000 during the six months ending June 30, 2004, primarily as a result of attracting new customers to our services and increasing the volume of services sold to existing customers. During the six

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months ending June 30, 2005, our cost of revenue increased approximately 30% to \$371,000 from \$284,000 during the six months ending June 30, 2004, primarily as a result of additional costs associated with hiring more laboratory personnel to support our increased testing volumes as well as increased costs as a result of opening new lines of business. This resulted in an increase of approximately 1,175% in our gross profit during the six months ended June 30, 2005 to approximately \$205,000 from \$16,000 during the six months ended June 30, 2004. This increase is primarily attributable to realizing economies of scale from our increased revenues and testing volumes for the six months ended June 30, 2005 as compared to the six months ended June 30, 2004. We believe we will continue to realize economies of scale.

During the six months ended June 30, 2005, our selling, general and administrative expenses increased by approximately 68% to approximately \$522,000 from approximately \$310,000 in the six months ended June 30, 2004. This increase was primarily as a result of higher personnel and personnel-related expenses associated with increased levels of staffing. Selling, general and administrative expenses include all of our overhead and technology expenses as well as the cost of our management and sales personnel. Interest expense for the six months ended June 30, 2005 increased approximately 80% to \$79,000 from \$44,000 for the six months ended June, 2004. Interest expense is mainly comprised of interest payable on advances under our Credit Facility from Aspen, which have increased as a result of our increased borrowing. In addition, in connection with our new credit facility, discussed below in "Liquidity and Capital Resources," we recorded \$131,337 of a debt discount for the issuance of warrants and we incurred \$53,587 of financing costs. These amounts are being amortized to interest expense over the 24 month period of the new credit facility. Thus interest expense for the six months ending June 30, 2005, includes approximately \$25,000 of non-cash charges in connection with the amortization of this debt discount and financing costs which were not included in interest expense during the six months ended June 30, 2005.

As a result of the foregoing, our net loss for the six months ended June 30, 2005 increased approximately 17% to approximately \$397,000 from approximately \$338,000 during the six months-ended June 30, 2004.

Liquidity and Capital Resources

During the six months ended June 30, 2005, our operating activities used approximately \$513,000 in cash. This amount primarily represented cash used to pay general and administrative expenses associated with our operations and to fund our working capital needs. We also spent approximately \$76,000 on new

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equipment. We were able to finance operations and equipment purchases primarily through the sale of equity securities and net advances under our Credit Facility, which together provided approximately \$498,000 (net of \$54,000 of debt issue costs) during the six months-ended June 30, 2005. At June 30, 2005, we had cash and cash equivalents of approximately \$21,000.

During 2004, we sold 3,040,000 shares of our common stock in a series of private placements at \$0.25 per share to unaffiliated third party investors. These transactions generated net proceeds to the Company of approximately \$740,000 after deducting certain transaction expenses.

On January 3, 2005, we issued 27,288 shares of common stock under the Company's 2003 Equity Incentive Plan to two employees of the Company in satisfaction of \$6,822 of accrued, but unpaid vacation.

During the six months ending June 30, 2005, we sold 522,382 shares of our common stock in a series of private placements at \$0.30 per share and \$0.35 per share to unaffiliated third party investors. These transactions generated net proceeds to the Company of approximately \$171,000.

On March 23, 2005, we entered into an agreement with Aspen Select Healthcare, LP (formerly known as MVP 3, LP) to refinance our existing indebtedness of \$740,000 and provide for additional liquidity of up to \$760,000 to the Company. Under the terms of the agreement, Aspen Select Healthcare, LP ("Aspen"), a Naples, Florida-based private investment fund will make available

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up to \$1.5 million of debt financing in the form of a revolving credit facility (the "Credit Facility") with an initial maturity of March 31, 2007. Aspen is managed by its General Partner, Medical Venture Partners, LLC, which is controlled by a director of NeoGenomics.

Under the terms of the Credit Facility, we are able to borrow up to 80% of "eligible" accounts receivable, 50% of our net furniture and equipment balance, secured by substantially all of our assets, and up to \$500,000 on an unsecured basis until April 30, 2005 and up to \$1,000,000 on an unsecured basis after April 30, 2005. The interest rate on the Credit Facility is prime + 6.0%, payable monthly in arrears. With respect to this agreement, we are subject to the following restrictive covenants: (i) we are not to incur indebtedness outside of this agreement in excess of \$50,000 without written authorization of Aspen, (ii) we cannot declare or pay any dividend on our common stock, and (iii) we are also subject to other general covenants typical of an instrument of this kind. As part of the Credit Facility transaction, the Company also issued to Aspen a five year Warrant to purchase up to 2,500,000 shares of its common stock at an exercise price of \$0.50 per share.

On June 6, 2005, we entered into a Standby Equity Distribution Agreement with Cornell Capital Partners, LP ("Cornell"). Pursuant to the Standby Equity Distribution Agreement, the Company may, at its discretion, periodically sell to Cornell shares of common stock for a total purchase price of up to \$5.0 million. For each share of common stock purchased under the Standby Equity Distribution Agreement, Cornell will pay the Company 98% of the lowest volume weighted average price ("VWAP") of the Company's common stock as quoted by Bloomberg, LP on the Over-the-Counter Bulletin Board or other principal market on which the Company's common stock is traded for the 5 days immediately following the notice

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date (the "Purchase Price"). The total number of shares issued to Cornell under each advance request will be equal to the total dollar amount of the advance request divided by the Purchase Price determined during the five day pricing period. Cornell will also retain 5% of each advance under the Standby Equity Distribution Agreement. Cornell's obligation to purchase shares of the Company's common stock under the Standby Equity Distribution Agreement is subject to certain conditions, including the Company obtaining an effective registration statement for shares of common stock sold under the Standby Equity Distribution Agreement and is limited to \$750,000 per weekly advance. The amount and timing of all advances under the Standby Equity Distribution Agreement are at the discretion of the Company and the Company is not obligated to issue and sell any securities to Cornell, unless and until it decides to do so. Upon execution of the Standby Equity Distribution Agreement, Cornell received 381,888 shares of the Company's common stock as a commitment fee under the Standby Equity Distribution Agreement. The Company also issued 27,278 shares of the Company's common stock to Spartan Securities Group, Ltd. under a placement agent agreement relating to the Standby Equity Distribution Agreement.

On July 28, 2005 we filed an amended SB-2 registration statement with the Securities and Exchange Commission to register 10,000,000 shares of our common stock related to the above.

At the present time, we have limited cash resources. We do not anticipate that we will generate significant cash flow from operating activities until late 2005. As a result, we anticipate that we will require approximately \$200,000 to \$300,000 of additional working capital financing during the next twelve months in order to meet our working capital requirements during this period. We currently plan to finance our operations through borrowings under our Credit Facility with Aspen and advances under the Standby Equity Distribution Agreement with Cornell. Advances under the Credit Facility are limited, at any given time, based on a formula contained in the loan agreement and advances under the Cornell Standby Equity Distribution Agreement may not be favorable to the Company based on where the Company's stock price is trading at any given time. The Company may not be eligible to obtain all of its working capital funding needs from Aspen or from the Cornell Standby Equity Distribution Agreement or any other source. If the Company is unable to obtain such funding, the Company will be required to curtail or discontinue operations.

Capital Expenditures

We currently forecast capital expenditures for the coming year 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 \$200,000 to \$300,000 of additional capital equipment during the next twelve months. We plan to fund these expenditures through borrowings under our Credit Facility with Aspen and through traditional lease financing from equipment lessors. We may not be eligible to obtain all of our capital equipment funding needs from Aspen or another source. If we are unable to obtain such funding, we will be required to curtail our equipment purchases, which may have an impact on our ability to generate revenues.

Staffing

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Currently, we have thirteen full-time employees, one part-time employee and four part-time consultants. During 2005, we plan to add additional laboratory technologists and laboratory assistants to assist us in handling a greater volume of tests and to perform sponsored research projects. In addition, we intend to continue building our sales force in an effort to sustain our sales growth, as well as add personnel in management, accounting, and administrative functions. The number of such additional personnel and their salaries will be determined by the volume of business we are generating and the availability of adequate financial resources to pay the salaries of such personnel.

Item 3 - CONTROLS AND PROCEDURES

A) Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this report, the Company carried out an evaluation, under the supervision and with the participation of the Company's Principal Executive Officer and Acting Principal Financial Officer of the effectiveness of the design and operation of the Company's disclosure controls and procedures. The Company's disclosure controls and procedures are designed to provide a reasonable level of assurance of achieving the Company's disclosure control objectives. The Company's Principal Executive Officer and Acting Principal Financial Officer have concluded that the Company's disclosure controls and procedures are, in fact, effective at this reasonable assurance level as of the period covered. In addition, the Company reviewed its internal controls, and there have been no significant changes in its internal controls or in other factors that could significantly affect those controls subsequent to the date of their last evaluation or from the end of the reporting period to the date of this Form 10-QSB.

(B) Changes in Internal Controls Over Financial Reporting

In connection with the evaluation of the Company's internal controls during the Company's second fiscal quarter ended June 30, 2005, the Company's Principal Executive Officer and Acting Principal Financial Officer have determined that there are no changes to the Company's internal controls over financial reporting that has materially affected, or is reasonably likely to materially effect, the Company's internal controls over financial reporting.

PART II. - OTHER INFORMATION

Item 1. Legal Proceedings

The Company is currently a defendant in one lawsuit from a former employee relating to compensation related claims. The Company does not believe this lawsuit is material to its operations or financial results and intends to vigorously pursue its defense of the matter.

Item 2. Changes in Securities

On January 3, 2005, we issued 27,288 shares of common stock under the Company's 2003 Equity Incentive Plan to two employees of the Company in satisfaction of \$6,822 of accrued, but unpaid vacation.

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On March 23, 2005, the Company entered into a Loan Agreement with Aspen Select Healthcare, LP ("Aspen") to provide up to \$1.5 million of indebtedness pursuant to a credit facility (the "Credit Facility"). As part of the Credit Facility transaction, the Company also issued to Aspen a five year Warrant to purchase up to 2,500,000 shares of its common stock at an exercise price of \$0.50 per share.

During the six months ending June 30, 2005, we sold 522,382 shares of our common stock in a series of private placements at \$0.30 per share and \$0.35 per share to unaffiliated third party investors. These transactions generated net proceeds to the Company of approximately \$171,000. These transactions involved the issuance of unregistered stock to accredited investors in transactions that we believed were exempt from registration under Rule 506 promulgated under the Securities Act of 1933.

On June 6, 2005, we entered into a Standby Equity Distribution Agreement with Cornell Capital Partners, LP ("Cornell"). Pursuant to the Standby Equity Distribution Agreement, the Company may, at its discretion, periodically sell to Cornell shares of common stock for a total purchase price of up to \$5.0 million. For each share of common stock purchased under the Standby Equity Distribution Agreement, Cornell will pay the Company 98% of the lowest volume weighted average price ("VWAP") of the Company's common stock as quoted by Bloomberg, LP on the Over-the-Counter Bulletin Board or other principal market on which the Company's common stock is traded for the 5 days immediately following the notice date (the "Purchase Price"). The total number of shares issued to Cornell under each advance request will be equal to the total dollar amount of the advance request divided by the Purchase Price determined during the five day pricing period. Cornell will also retain 5% of each advance under the Standby Equity Distribution Agreement. Cornell's obligation to purchase shares of the Company's common stock under the Standby Equity Distribution Agreement is subject to certain conditions, including the Company obtaining an effective registration statement for shares of common stock sold under the Standby Equity Distribution Agreement and is limited to \$750,000 per weekly advance. The amount and timing of all advances under the Standby Equity Distribution Agreement are at the discretion of the Company and the Company is not obligated to issue and sell any securities to Cornell, unless and until it decides to do so. Upon execution of the Standby Equity Distribution Agreement, Cornell received 381,888 shares of the Company's common stock as a commitment fee under the Standby Equity Distribution Agreement. The Company also issued 27,278 shares of the Company's common stock to Spartan Securities Group, Ltd. under a placement agent agreement relating to the Standby Equity Distribution Agreement.

Item 3. Defaults Upon Senior Securities

NONE

Item 4. Submission of Matters to a Vote of Securities Holders

NONE

Item 5. Other Information

NONE

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

The following exhibits are filed as part of this Form 10-QSB.

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Exhibit

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<u>Number</u>	<u>Description</u>	
31.1	Certification by Principal Executive Officer pursuant to 15 U.S.C. Section 7241, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Provided herewith
31.2	Certification by Principal Financial Officer pursuant to 15 U.S.C. Section 7241, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Provided herewith
32.1	Certification by Principal Executive Officer and Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	Provided herewith

(b) Reports on Form 8-K.

On June 8, 2005, we filed a report on Form 8-K announcing that the Company had entered into a Standby Equity Distribution Agreement with Cornell Capital Partners, LP, whereby the Company may, at its discretion, periodically sell to Cornell shares of common stock for a total purchase price of up to \$5.0 million. All of the related transaction documents were filed as attachments to this Form 8-K.

On June 23, 2005 we filed a report on Form 8-K announcing that the Company, pursuant to a written consent of the majority of its shareholders, elected three new Directors to the Company's Board of Directors. The three new Directors are Dr. Thomas D. Conrad, Mr. George O'Leary and Mr. Peter M. Peterson. The Company also announced that pursuant to the same shareholder action, Dr. Michael T. Dent, Mr. Robert P. Gasparini, and Mr. Steven C. Jones have been reappointed to the Company's Board for another one-year term.

SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

NEOGENOMICS, INC.

Date: August 11, 2005

/s/ Robert P. Gasparini
Robert P. Gasparini
President and

