NEOGENOMICS INC
Form 10QSB
May 15, 2007

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 March 31, 2007

( ) 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	**74-2897368**
(State or other jurisdiction of incorporation or organization)	(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 ( )

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

State the number of shares outstanding of each of the issuer's classes of common equity, as of May 15, 2007

28,061,220

Transitional Small Business Disclosure Format: **YES ( ) NO (X)**

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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” or “NeoGenomics” 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 “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.

NeoGenomics, Inc.

CONSOLIDATED BALANCE SHEET AS OF
March 31, 2007
(unaudited)

ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$	575,393
Accounts receivable (net of allowance for doubtful accounts of $126,363)		1,986,229
Inventories		155,190
Other current assets		106,039
Total current assets		2,822,851
PROPERTY AND EQUIPMENT (net of accumulated depreciation of $492,548)		1,409,381
OTHER ASSETS		39,791
TOTAL	$	4,272,023
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$	761,071
Accrued compensation		162,672
Accrued and other liabilities		132,030
Short-term portion of equipment leases		142,318
Due to affiliates (net of unamortized discount of $25,813)		1,674,186
Total current liabilities		2,872,277
LONG TERM LIABILITIES -		
Long-term portion of equipment leases		610,056
TOTAL LIABILITIES		3,482,333
STOCKHOLDERS' EQUITY:		
Common stock, $.001 par value, 100,000,000 shares authorized;		
27,697,958 shares issued and outstanding		27,698
Additional paid-in capital		12,342,983
Deferred stock compensation		(211,388)
Accumulated deficit		(11,369,603)

Total stockholders' equity	789,690
TOTAL	$ 4,272,023

See notes to consolidated financial statements.

NeoGenomics, Inc.

CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited)

		For the Three-Months Ended March 31, 2007		For the Three-Months Ended March 31, 2006
REVENUE	$	2,242,661	$	1,343,800
COST OF REVENUE		936,734		576,797
GROSS PROFIT		1,305,927		767,003
OTHER OPERATING EXPENSES:				
Selling, general and administrative		1,426,548		590,684
Interest expense		98,924		69,885
Total other operating expenses		1,525,472		660,569
NET INCOME (LOSS)	$	(219,545)	$	106,434
NET INCOME (LOSS) PER SHARE - Basic	$	(0.01)	$	0.00
Diluted	$	(0.01)	$	0.00
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING –				
Basic		27,371,233		24,752,083
Diluted		27,371,233		25,512,363

See notes to consolidated financial statements.

NeoGenomics, Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

	For the Three-Months Ended March 31, 2007	For the Three-Months Ended March 31, 2006
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$ (219,545)	$ 106,434
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation	81,981	39,691
Equity-based compensation	91,510	21,833
Provision for bad debts	110,000	63,158
Amortization of debt issue costs	5,359	5,359
Impairment of fixed assets	2,235	-
Other non-cash expenses	4,741	9,482
Changes in assets and liabilities, net:		
Accounts receivables, net of write-offs	(546,472)	(410,154)
Inventory	(37,828)	13,296
Other current assets	(6,740)	(28,928)
Accounts payable and other liabilities	132,728	(97,907)
NET CASH USED IN OPERATING ACTIVITIES	(382,031)	(277,736)
CASH FLOWS USED IN INVESTING ACTIVITIES -		
Purchases of property and equipment	(24,418)	(86,755)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Advances from affiliates, net	25,000	-
Repayment of notes payable	(2,000)	-
Repayment of capital lease	(30,631)	-
Issuances of common stock, net of transaction expenses	863,207	613,628
NET CASH PROVIDED BY FINANCING ACTIVITIES	855,576	613,628
NET INCREASE IN CASH AND CASH EQUIVALENTS	449,127	249,137
	126,266	10,944

CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD				
CASH AND CASH EQUIVALENTS, END OF PERIOD	$	575,393	$	260,081
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:				
Interest paid	$	77,922	$	50,561
Income taxes paid	$	100	$	-
SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:				
Equipment leased under capital lease	$	239,579	$	134,204

See notes to consolidated financial statements.

NeoGenomics, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

NOTE A –FORMATION AND OPERATIONS OF THE COMPANY

NeoGenomics, Inc. ("NEO" or the "Subsidiary") 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. ("ACE", or the "Parent") in a reverse merger transaction. ACE was formed in 1998 and succeeded to NEO's name on January 3, 2002 (NEO and ACE are collectively referred to as "we", "us", "our" or the "Company").

Basis of Presentation

Our accompanying unaudited consolidated condensed financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and pursuant to the instructions to Form 10-QSB and Article 10 of Regulation S-X of the Securities and Exchange Commission ("SEC"). Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In our opinion all adjustments (consisting of normal recurring adjustments) considered necessary for a fair statement of the results for the fiscal period have been included. Operating results for the three month period ended March 31, 2007 are not necessarily indicative of the results that may be expected for the year ending December 31, 2007, or for any future period. These financial statements and notes should be read in conjunction with our audited consolidated financial statements and notes thereto for the year ended December 31, 2006 included in our Annual Report on Form 10-KSB.

Certain amounts in the prior years' consolidated financial statements have been reclassified to conform to the current year presentation.

Accounts Receivable

We record accounts receivable net of 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. Receivables are charged off to the allowance account at the time they are deemed uncollectible.

Net Income (Loss) Per Common Share

We compute net income (loss) per share in accordance with Financial Accounting Standards Statement No. 128 "Earnings per Share" ("SFAS 128") and SEC Staff Accounting Bulletin No. 98 ("SAB 98"). Under the provisions of SFAS No. 128 and SAB 98, basic net income (loss) per share is computed by dividing the net income (loss) available to common stockholders by the weighted average number of common shares outstanding during the period. Diluted earnings per share are calculated by dividing net income by potentially dilutive common shares, which include stock options and warrants.

Net loss per share is calculated by dividing net loss by the weighted average number of common shares outstanding during the period. The impact of conversion of dilutive securities, such as stock options and warrants, is not considered where a net loss is reported as the inclusion of such securities would be anti-dilutive. As a result, basic loss per share is the same as diluted loss per share.

NOTE B – EQUITY AND DEBT FINANCING TRANSACTIONS

On January 18, 2006, the Company entered into a binding letter agreement (the "Aspen Agreement") with Aspen Select Healthcare, LP, which provided, among other things, that:

(a) Aspen waived certain pre-emptive rights in connection with the sale of $400,000 of common stock at a purchase price of $0.20/share and the granting of 900,000 warrants with an exercise price of $0.26/share to a SKL Limited Partnership, LP ("SKL" as more fully described below) in exchange for five year warrants to purchase 150,000 shares at an exercise price of $0.26/share;

(b) Aspen had the right, up to April 30, 2006, to purchase up to $200,000 of restricted shares of our common stock at a purchase price per share of $0.20/share (1.0 million shares) and receive a five year warrant to purchase up to 450,000 shares of our common stock at an exercise price of $0.26/share in connection with such purchase (the "Equity Purchase Rights"). On March 14, 2006, Aspen exercised its Equity Purchase Rights

(c) Aspen and the Company amended the Loan Agreement, dated March 23, 2005 (the “Loan Agreement”) between the parties to extend the maturity date until September 30, 2007 and to modify certain covenants (such Loan Agreement as amended, the “Credit Facility Amendment”).

(d) Aspen had the right, until April 30, 2006, to provide up to $200,000 of additional secured indebtedness to us under the Credit Facility Amendment and receive a five year warrant to purchase up to 450,000 shares of our common stock with an exercise price of $0.26/share (the "New Debt Rights"). On March 30, 2006, Aspen exercised its New Debt Rights and entered into the definitive transaction documentation for the Credit Facility Amendment and other such documents required under the Aspen Agreement.

(e) The Company agreed to amend and restate that certain warrant agreement, dated March 23, 2005 to provide that all 2,500,000 warrant shares (the "Existing Warrants") were vested and the exercise price per share of such warrants was reset to $0.31 per share; and

(f) The Company agreed to amend that certain Registration Rights Agreement, dated March 23, 2005 (the "Registration Rights Agreement"), between the parties to incorporate the Existing Warrants and any new shares or warrants issued to Aspen in connection with the Equity Purchase Rights or the New Debt Rights.

We borrowed an additional $100,000 from the Aspen credit facility in May 2006, $25,000 in September 2006 and $50,000 in December 2006. At December 31, 2006, $1,675,000 was outstanding on the credit facility, which bears interest at prime plus 6%, and $25,000 remained available. Subsequent to December 31, 2006 we borrowed the remaining $25,000 available under the Aspen facility.

During the period from January 18 - 21, 2006, the Company entered into agreements with four other shareholders who are parties to that certain Shareholders’ Agreement, dated March 23, 2005, to exchange five year warrants to purchase 150,000 shares of stock in the aggregate at an exercise price of $0.26/share for such shareholders’ waiver of their pre-emptive rights under the Shareholders’ Agreement.

On January 21, 2006 the Company entered into a subscription agreement (the "Subscription") with SKL Family Limited Partnership, LP, a New Jersey limited partnership, whereby SKL purchased 2.0 million shares (the "Subscription Shares") of the Company's common stock at a purchase price of $0.20/share for $400,000. Under the terms of the Subscription, the Subscription Shares are restricted for a period of 24 months and then carry piggyback registration rights to the extent that exemptions under Rule 144 are not available to SKL. In connection with the Subscription, the Company also issued a five year warrant to purchase 900,000 shares of the Company's common stock at an exercise price of $0.26/share. SKL has no previous affiliation with the Company.

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On June 6, 2006 as a result of not terminating our Standby Equity Distribution Agreement ("SEDA") with Cornell Capital Partners, L.P. ("Cornell Capital") a short-term note payable in the amount of $50,000 became due to Cornell and was subsequently paid in July 2006 from the proceeds of a $53,000 advance under the SEDA.

The following sales of common stock have been made under our SEDA with Cornell since it was first declared effective on August 1, 2005.

Request Date	Completion Date	Shares of Common Stock Issued/Sold	Gross Proceeds Received	Cornell Fee	Escrow Fee	Net Proceeds	ASP(1)
8/29/2005	9/8/2005	63,776	$25,000	$1,250	$500	$23,250	
12/10/2005	12/18/2005	241,779	50,000	2,500	500	47,000	
Subtotal - 2005		305,555	$75,000	$3,750	$1,000	$70,250	$0.25
7/19/2006	7/28/2006	83,491	53,000	2,500	500	50,000	
8/8/2006	8/16/2006	279,486	250,000	12,500	500	237,000	
10/18/2006	10/23/2006	167,842	200,000	10,000	500	189,500	
Subtotal - 2006		530,819	$503,000	$25,000	$1,500	$476,500	$0.95
12/29/2006	1/10/2007	98,522	150,000	7,500	500	142,000	
1/16/2007	1/24/2007	100,053	150,000	7,500	500	142,000	
2/1/2007	2/12/2007	65,902	100,000	5,000	500	94,500	
2/19/2007	2/28/2007	166,611	250,000	12,500	500	237,000	
2/28/2007	3/7/2007	180,963	250,000	12,500	500	237,000	
4/5/2007	4/16/2007	164,777	250,000	12,500	500	237,000	
4/20/2007	4/30/2007	173,467	250,000	12,500	500	237,000	
Subtotal - 2007 YTD		$950,295	$1,400,000	$70,000	$3,500	$1,326,500	$1.48
Total Since Inception		1,786,669	$1,978,000	$98,750	$6,000	$1,873,250	$1.19
Remaining			$3,022,000				

Total Facility	$5,000,000

(1) Average Selling Price of shares issued.

NOTE C – OTHER RELATED PARTY TRANSACTIONS

During the three months ended March 31, 2007, we incurred consulting expense from Steven Jones a director of the Company, for work performed in connection with acting as our principal financial officer in the amount of $21,000 compared to $13,500 for the three months ending March 31, 2006.

For the three months ended March 31, 2007, we incurred consulting expense of $9,500 from George O'Leary a director of the Company for general consulting work.

NOTE D –EQUIPMENT LEASES

Capital Leases

During 2007, we entered into the following capital leases:

Date	Type	Months	Cost	Monthly Payment	Obligation at March 31, 2007
Feb 2007	Computer Hardware	36	$3,618	$127	$3,289
Feb 2007	Computer Hardware	36	4,508	153	4,202
Feb 2007	Lab Equipment	48	80,015	2,289	75,181
Mar 2007	Lab Equipment	60	135,655	2,746	135,646
Mar 2007	Computer Software	36	15,783	527	14,693
Totals			**$239,579**	**$5,842**	**$233,011**

NOTE E – OTHER SUBSEQUENT EVENTS

On April 2, 2007, we concluded a definitive agreement with Power3 Medical Products, Inc., a New York Corporation ("Power3") regarding the formation of a joint venture Contract Research Organization ("CRO") and the issuance of convertible debentures and related securities by Power3 to us. Power3 is an early stage company engaged in the discovery, development, and commercialization of protein biomarkers. Under the terms of the agreement, we agreed to enter into a joint venture agreement with Power3 pursuant to which the parties will jointly own a CRO and begin commercializing Power3's intellectual property portfolio of seventeen patents pending by developing diagnostic tests and other services around one or more of the over 500 protein biomarkers that Power3 believes it has discovered to date. Power3 has agreed to license all of its intellectual property on a non-exclusive basis to the CRO for selected commercial applications as well as provide certain management personnel. We will provide access to cancer samples, management and sales & marketing personnel, laboratory facilities and working capital. Subject to final negotiation of the joint venture agreement, we will own a minimum of 60% and up to 80% of the new CRO venture which is anticipated to be launched in the third or fourth quarter of FY 2007.

As part of the definitive agreement, we provided $200,000 of working capital to Power3 by purchasing a convertible debenture on April 17, 2007 pursuant to a Securities Purchase Agreement (the "Purchase Agreement") between us and Power3. We were also granted two irrevocable options to increase our stake in Power3 to up to 60% of the Power3 fully diluted shares outstanding. The first option (the "First Option") is a fixed option to purchase convertible preferred stock of Power3 that is convertible into such number of shares of Power3 common stock, in one or more transactions, up to 20% of Power3's voting common stock at a purchase price per share, which will also equal the initial conversion price per share, equal to the lesser of (a) $0.20/share, or (b) $20,000,000 divided by the fully-diluted shares outstanding on the date of the exercise of the First Option. This First Option became exercisable on April 17, 2007 and continues to be exercisable until the day which is the later of (c) November 16, 2007 or (d) the date that certain milestones specified in the agreement have been achieved. The First Option is exercisable in cash or NeoGenomics common stock at our option, provided, however, that we must include at least $1.0 million of cash in the consideration if we elect to exercise this First Option. In addition to purchasing convertible preferred stock as part of the First Option, we are also entitled to receive such number of warrants to purchase Power3 common tock that will permit us to maintain our current ownership percentage in Power3 on a fully diluted basis. Such warrants will have an exercise price equal to the initial conversion price of the convertible preferred stock that was purchased pursuant to the First Option and will have a five year term.

The second option (the "Second Option"), which is only exercisable if we have exercised the First Option, provides that we will have the option to increase our stake in Power3 to up to 60% of fully diluted shares of Power3 over the twelve month period beginning on the expiration date of the First Option in one or a series of transactions by purchasing additional convertible preferred stock of Power3 that is convertible into voting common stock and receiving additional warrants. The purchase price per share, and the initial conversion price of the Second Option convertible preferred stock will, to the extent such Second Option is exercised within six months of exercise of the First Option, be the lesser of (a) $0.40/share or (b) $40,000,000 divided by the fully diluted shares outstanding on the date of any purchase. The purchase price per share, and the initial conversion price of the Second Option convertible preferred stock will, to the extent such Second Option is exercised after six months, but within twelve months of exercise of the First Option, be the lesser of (y) $0.50/share or (z) an equity price per share equal to $50,000,000 divided by the fully diluted shares outstanding on the date of any purchase. The exercise price of the Second Option may be paid in cash or in any combination of cash and our common stock at our option. In addition to purchasing convertible preferred stock as part of the Second Option, we are also entitled to receive such number of warrants to purchase Power3 common stock that will permit us to maintain our current ownership percentage in Power3 on a fully diluted basis. Such warrants will have an exercise price equal to the initial conversion price of the convertible preferred stock being purchased that date and will have a five year term.

The Purchase Agreement granted us (1) a right of first refusal with respect to future issuances of Power3 capital stock and (2) the right to appoint a member of the Power3 board of directors so long as we own 10% or more of Power3's outstanding voting securities.

Operating Leases

On April 5, 2007, we entered into a lease for 8,195 square feet of laboratory space in Irvine, California. The lease is a five year lease and results in total payments by the Company of approximately $771,000 including estimated operating and maintenance expenses and property taxes. This lease will expire on April 30, 2012.

Financing

As described in Note B, we drew $500,000 from the SEDA subsequent to March 31, 2007.

End of Financial Statements
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Item 2. - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (including cautionary statement)

Introduction

The following discussion and analysis should be read in conjunction with the financial statements for the three months ended March 31, 2007, included with this Form 10-QSB. Readers are also referred to the cautionary statement, which addresses forward-looking statements made by us. As used in this report, the terms "we", "us", "our", “NeoGenomics”, and the “Company” mean NeoGenomics, Inc. and subsidiaries unless otherwise indicated.

Overview

NeoGenomics, Inc., a Nevada corporation (referred to individually as the “Parent Company” or collectively with all of its subsidiaries as “NeoGenomics” or the “Company” in this Form 10-QSB) is the registrant for Securities and Exchange (“SEC”) reporting purposes. Our common stock is listed on the NASDAQ Over-The-Counter Bulletin Board (the “OTCBB”) under the symbol “NGNM.”

NeoGenomics operates cancer-focused testing laboratories that specifically target the rapidly growing genetic and molecular testing segment of the medical laboratory industry. Headquartered in Fort Myers, Florida, the Company’s growing network of laboratories currently offers the following types of testing services to pathologists, oncologists, urologists, hospitals, and other laboratories throughout the United States:

a) cytogenetics testing, which analyzes human chromosomes;
b) Fluorescence In-Situ Hybridization (FISH) testing, which analyzes abnormalities at the chromosomal and gene levels;
c) flow cytometry testing, which analyzes gene expression of specific markers inside cells and on cell surfaces; and
d) molecular testing which involves analysis of DNA and RNA to diagnose and predict the clinical significance of various genetic sequence disorders.

All of these testing services are widely utilized in the diagnosis and prognosis of various types of cancer.

The genetic and molecular testing segment of the medical laboratory industry is the most rapidly growing niche of the market. Approximately six years ago, the World Health Organization reclassified cancers as genetic anomalies. This growing awareness of the genetic root behind most cancers combined with 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:

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

Clinical laboratories are typically engaged in high volume, highly automated, lower complexity tests on easily procured specimens such as 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. The most widely performed AP procedures include the preparation and interpretation of pap smears, skin biopsies, and tissue biopsies. The higher complexity AP tests typically involve more labor and are

more technology intensive than clinical lab tests. Thus AP tests generally result in higher average revenue per test than clinical lab tests.

Genetic and molecular testing typically involves analyzing chromosomes, genes or base pairs of DNA or RNA for abnormalities. Genetic and molecular testing have become important and highly accurate diagnostic tools over the last five years. New tests are being developed at an accelerated pace, thus this market niche continues to expand rapidly. Genetic and molecular testing requires highly specialized equipment and credentialed individuals (typically MD or PhD level) to certify results and typically yields the highest average revenue per test of the three market segments. The following chart shows the differences between the genetic and molecular niche and other segments of the medical laboratory industry. Up until approximately five years ago, the genetic and molecular testing niche was considered to be part of the AP segment, but given its rapid growth, it is now more routinely broken out and accounted for as its own segment.

COMPARISON OF THE MEDICAL LABORATORY MARKET SEGMENTS (1)

Attributes	Clinical	Anatomic Pathology	Genetic/Molecular
Testing Performed On	Blood, Urine	Tissue/Cells	Chromosomes/Genes/DNA
Testing Volume	High	Low	Low
Physician Involvement	Low	High -	Low - Medium
Malpractice Ins. Required	Low	Pathologist	Low
Other Professionals Req.	None	High	Cyto/Molecular geneticist
Level of Automation	High	None	Moderate
Diagnostic in Nature	Usually Not	Low-Moderate	Yes
Types of Diseases Tested	Many Possible	Yes	Rapidly Growing
Typical per Price/Test	$5 - $35/Test	Primarily to Rule out Cancer	$200 - $1,000/Test
Estimated Size of Market	$25 - $30 Billion	$25 - $500/Test	$4 - $5 Billion (2)
Estimated Annual Growth Rate	4% -5%	$10 - $12 Billion	25+%
		6% – 7%	
Established Competitors	Quest Diagnostics LabCorp Bio Reference Labs DSI Laboratories Hospital Labs Regional Labs	Quest Diagnostics LabCorp Genzyme Genetics Ameripath Local Pathologists	Genzyme Genetics Quest Diagnostics LabCorp Major Universities

(1) Derived from industry analyst reports
(2) Includes flow cytometry testing, which historically has been classified under anatomic pathology.

NeoGenomics' primary focus is to provide high complexity laboratory testing for the community-based pathology and oncology markets. Within these key market segments, we currently provide our services to pathologists and oncologists in the United States that perform bone marrow and/or peripheral blood sampling for the diagnosis of liquid tumors (leukemias and lymphomas) and archival tissue referral for analysis of solid tumors such as breast

cancer. A secondary strategic focus targets community-based urologists, due to the availability of UroVysion®, a FISH-based test for the initial diagnosis of bladder cancer and early detection of recurrent disease. We focus on community-based practitioners for two reasons: First, academic pathologists and associated clinicians tend to have their testing needs met within the confines of their university affiliation. Secondly, most of the cancer care in the United States is administered by community based practitioners, not in academic centers, due to ease of local access. Moreover, within the community-based pathologist segment it is not our intent to willingly compete with our customers for testing services that they may seek to perform themselves. Fee-for-service pathologists for example, derive a significant portion of their annual revenue from the interpretation of biopsy specimens. Unlike other larger laboratories, which strive to perform 100% of such testing services themselves, we do not intend to compete with our customers for such specimens. Rather, our high complexity cancer testing focus is a natural extension of and complementary to many of the services that our community-based customers often perform within their own practices. As such, we believe our relationship as a non-competitive consultant, empowers these physicians to expand their testing breadth and provide a menu of services that matches or exceeds the level of service found in academic centers of excellence around the country.

We continue to make progress growing our testing volumes and revenue beyond our historically focused effort in Florida due to our expanding field sales footprint. As of March 31, 2007, NeoGenomics' sales organization totaled 9 individuals. Recent, key hires included our Vice President of Sales & Marketing, and various sales managers and representatives in the Northeastern, Southeastern, and Western states. We intend to continue adding sales representatives on a quarterly basis throughout the year. As more sales representatives are added, the base of our business outside of Florida will continue to grow and ultimately eclipse that which is generated within the state.

We are successfully competing in the marketplace based on the quality and comprehensiveness of our test results, and our innovative flexible levels of service, industry-leading turn-around times, regionalization of laboratory operations and ability to provide after-test support to those physicians requesting consultation. 2006 saw the introduction of our Genetic Pathology Solutions (GPS) product that provides summary interpretation of multiple testing platforms all in one consolidated report. Response from clients has been favorable and provides another option for those customers that require a higher degree of customized service.

Another important service was initiated in December 2006 when we became the first laboratory to offer technical-component only (tech-only) FISH testing to the key community-based pathologist market segment. NeoFISH™ has been enthusiastically received and has provided our sales team with another differentiating product to meet the needs of our target community-based pathologists. With NeoFISH™ these customers are able to retain a portion of the overall testing revenue from such FISH specimens themselves, which serves to much better align their interests with those of NeoGenomics than what might otherwise be possible with larger laboratory competitors.

We believe NeoGenomics average 3-5 day turn-around time for our cytogenetics services remains an industry-leading benchmark. The timeliness of results continues to increase the usage patterns of cytogenetics and act as a driver for other add-on testing requests by our referring physicians. Based on anecdotal information, we believe that typical cytogenetics labs have 7-14 day turn-around times on average with some labs running as high as 21 days. 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 result in our referring physicians requesting more of our testing services in order to augment or confirm other diagnostic tests, thereby we believe giving us a significant competitive advantage in marketing our services against those of other competing laboratories.

In 2006 we began an aggressive campaign to form new laboratories around the country that will allow us to regionalize our operations to be closer to our customers. High complexity laboratories within the cancer testing niche have frequently operated a core facility on one or both coasts to service the needs of their customers around the country. Informal surveys of customers and prospects uncovered a desire to do business with a laboratory with national breadth but with a more local presence. In such a scenario, specimen integrity, turnaround-time of results, client service support, and interaction with our medical staff are all enhanced. In 2006, NeoGenomics achieved the milestone of opening two other laboratories to complement our headquarters in Fort Myers, Florida. NeoGenomics facilities in Nashville, Tennessee and Irvine, California received the appropriate state and CLIA-certified clinical laboratory licensure and are now receiving live specimens. As situations dictate and opportunities arise, we will continue to develop and open new laboratories, seamlessly linked together by our optimized Laboratory Information System (LIS), to better meet the regionalized needs of our customers.

Fiscal year 2006 also saw the initial establishment of the NeoGenomics Contract Research Organization ("CRO") division based at our Irvine, CA facility. This division was created to take advantage of our core competencies in genetic and molecular high complexity testing and act as a vehicle to compete for research projects and clinical trial support contracts in the biotechnology and pharmaceutical industries. The CRO division will also act as a development conduit for the validation of new tests which can then be transferred to our clinical laboratories and be offered to our clients. We envision the CRO as a way to infuse intellectual property into the mix of our services and in time create a more "vertically integrated" laboratory that can potentially offer additional clinical services of a more proprietary nature. Our agreement with Power3 further expanded the scope of this entity and provides us with joint venture partner. We will launch this venture in the third or fourth quarter of FY 2007.

As NeoGenomics grows, we anticipate offering additional tests that broaden our focus from genetic and molecular testing to more traditional types of AP testing that are complementary to our current test offerings. At no time do we expect to intentionally compete with fee-for-service pathologists for services of this type and Company sales efforts will operate under a strict "right of first refusal" philosophy that supports rather than undercuts the practice of community-based pathology. We believe that by adding additional types of tests to our product offering we will 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 package our testing services more appropriately to the needs of the market.

Historically, the above approach has borne out well for the Company. For most of FY 2004, we only performed one type of test in-house, cytogenetics, which resulted in only one test being performed per customer requisition for most of the year and average revenue per requisition of approximately $490. With the subsequent addition of FISH testing in FY 2005 and flow cytometry to our pre-existing cytogenetics testing in FY 2006, our average revenue/requisition increased by 29% in FY 2005 to approximately $632 and a further 7% in FY 2006 to approximately $677/requisition. We believe with focused sales and marketing efforts and the recent launch of GPS™ reporting, NeoFISH™ tech-only FISH services, and the future addition of additional testing platforms, we can continue to increase our average revenue per customer requisition. The following is a summary of our key operating metrics for the three month periods ended March 31, 2007 and March 31, 2006, respectively:

	FY 2007	FY 2006	% Inc
Customer Requisitions Rec'd (Cases)	3,083	1,948	58.3%
Number of Tests Performed	4,196	2,664	57.5%
Average Number of Tests/Requisition	1.36	1.37	(0.7%)

Total Testing Revenue	$ 2,242,661	$ 1,343,800	66.9%
Average Revenue/Requisition	$ 727.43	$ 689.83	5.5%
Average Revenue/Test	$ 534.48	$504.42	6%

We believe this bundled approach to testing represents a clinically sound practice. In addition, as the average number of tests performed per requisition increases, this should drive large increases in our revenue and afford the Company significant synergies and efficiencies in our operations and sales and marketing activities. For instance, initial testing for many hematologic cancers may yield total revenue ranging from approximately $1,800 - $3,600/requisition and is generally comprised of a combination of some or all of the following tests: cytogenetics, fluorescence in-situ hybridization (FISH), flow cytometry and, per client request, morphology testing. Whereas in FY 2004, we only addressed approximately $500 of this potential revenue per requisition; in FY 2005 we addressed approximately $1,200 - $1,900 of this potential revenue per requisition; and in FY 2006, we began addressing this entire revenue stream (see below), dependent on medical necessity criteria and guidelines:

	Average Revenue/Test
Cytogenetics	$400-$500
Fluorescence In Situ Hybridization (FISH)	
Technical component	$300-$1,000
Professional component	$200-$500
Flow cytometry	
Technical component	$400-$700
Professional component	$100-$200
Morphology	$400-$700
Total	$1,800-$3,600

Critical Accounting Policies and Estimates

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 and estimates 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 and estimates are:

- Revenue Recognition
- 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.

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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 and Nine Months Ended March 31, 2007 as Compared To The Three Months Ended March 31, 2006

Revenue

For the three months ended March 31, 2007 our revenues increased 67% to approximately $2,242,700 from approximately $1,343,800 in the first three months of 2006. This was the result of a 57.5% increase in testing volume and a 6.0% increase in average revenue per test. This increase in average revenue per test is primarily the result of an increase in the reimbursement rate for flow cytometry tests paid by Medicare.

Cost of Revenue

For the three months ended March 31, 2007 our cost of revenue increased 62% to approximately $936,700 from approximately $576,800 in 2006. This was the result of the 57% increase in testing volume and is explained primarily as follows:

- Increase of approximately 88% in employee and benefit related costs
- Increase of approximately 470% in facility costs;
- Increase of approximately 71% in supply costs; and
- Increase of approximately 133% in postage and delivery costs.

Gross Profit

As a result of these increases in revenue and cost of revenue, our gross profit percentage for the three months ended March 31, 2007 increased to 58% from 57% for the first three months ended March 31, 2006.

Selling, General and Administrative Expenses

During the three months ended March 31, 2007, our selling, general and administrative (“SG&A”) expenses increased by approximately 142% to approximately $1,426,500 from approximately $590,700 for the three months ended March 31, 2006. This increase was primarily the result of higher personnel and personnel-related expenses, associated with the increase in management, sales and administrative headcount that was necessary to manage the significant increases in test volumes described above. In addition, our SG&A expenses also include all of our overhead and technology expenses and bad debt reserves, which also had to increase as a result of higher test volumes and increased revenue. SG&A expenses for the three months ended March 31, 2007 also included approximately $159,000 of legal expenses related to the lawsuit from Accupath Diagnostics Laboratories, Inc. d/b/a US Labs (“US Labs”), whereas no such legal expenses were included in SG&A for the three months ended March 31, 2006. SG&A for the three months ended March 31, 2007 also included non-cash expense related to stock compensation of approximately $94,000 compared to similar expenses of approximately $7,700 for the three months ended March 31, 2006. There was also a non-cash impairment of fixed asset expense of approximately $2,200 for the three-months ended March 31, 2007.

Other Income and Expense

Interest expense for the three months ended March 31, 2007 increased approximately 42% to approximately $98,900 from approximately $70,000 for the three months March 31, 2006. Interest expense is primarily comprised of interest payable on advances under our Credit Facility from Aspen, which has increased as a result of our increased borrowing to fund operations, and to a lesser extent interest on capital leases entered into during 2006 and early 2007.

COMMITTMENTS

Capital Leases

During 2007, we entered into the following capital leases:

Date	Type	Months	Cost	Monthly Payment	Obligation at March 31, 2007
Feb 2007	Computer Hardware	36	$3,618	$127	