

NEOGENOMICS INC
Form 10QSB
July 19, 2006

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, 2006.

() 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)

Edgar Filing: NEOGENOMICS INC - Form 10QSB

(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 (☒) NO (☐)

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

State the number of shares outstanding of each of the issuer's classes of common equity, as of July 18, 2006.

26,328,365

Transitional Small Business Disclosure Format: **YES (☐) NO (☒)**

NeoGenomics, Inc.

INDEX TO FORM 10-QSB

PART I. FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements (unaudited)

Consolidated Balance Sheet as of June 30, 2006.....	4
Consolidated Statements of Operations for the three and six months ended June 30, 2006 and 2005 ...	5
Consolidated Statements of Cash Flows for the six months ended June 30, 2006 and 2005	6
Notes to Consolidated Financial Statements.....	7

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (including cautionary statement)..... 11

Item 3. Controls and Procedures 18

PART II. OTHER INFORMATION

Item 1. Legal Proceedings.	19
Item 2. Changes in Securities.	19
Item 3. Defaults Upon Senior Securities.....	20
Item 4. Submission of Matters to a Vote of Securities Holders.....	20
Item 5. Other Information	20
Item 6. Exhibits and Reports on Form 8-K.....	20
Signatures	23

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

June 30, 2006

(unaudited)

ASSETS

CURRENT ASSETS:

Cash and cash equivalents	\$ 274,353
Accounts receivable (net of allowance for doubtful accounts of \$51,555)	1,032,674
Inventories	76,299
Other current assets	81,665
Total current assets	1,464,991

PROPERTY AND EQUIPMENT (net of accumulated depreciation of \$354,939) 839,225

OTHER ASSETS 19,186

TOTAL \$ 2,323,402

LIABILITIES AND STOCKHOLDERS' DEFICIT

CURRENT LIABILITIES:

Accounts payable	\$ 433,021
Deferred revenue	89,970
Short-term portion of equipment lease and notes payable	83,670
Accrued compensation	112,397
Accrued and other liabilities	69,019
Total current liabilities	788,077

LONG TERM LIABILITIES:

Line of credit (net of unamortized discount of \$66,228)	1,533,772
Long-term portion of equipment lease	106,065
Total long term liabilities	1,639,837

TOTAL LIABILITIES 2,427,914

STOCKHOLDERS' DEFICIT:

Common stock, \$.001 par value, 100,000,000 shares authorized; 26,328,365 shares issued and outstanding	26,328
Additional paid-in capital	10,700,948
Deferred Stock Compensation	(79,078)
Accumulated deficit	(10,752,710)
Total stockholders' deficit	(104,512)

TOTAL \$ 2,323,402

See notes to consolidated financial statements.

NeoGenomics, Inc.**CONSOLIDATED STATEMENTS OF OPERATIONS****(unaudited)**

	For the	For the	For the	For the
	Six-Months	Six-Months	Three-Months	Three-Months
	Ended	Ended	Ended	Ended
	June 30, 2006	June 30, 2005	June 30, 2006	June 30, 2005
REVENUE	\$ 3,111,292	\$ 575,080	\$ 1,767,492	\$ 344,888
COST OF REVENUE	1,302,614	347,005	725,816	182,391
GROSS PROFIT	1,808,678	228,075	1,041,676	162,497
OTHER OPERATING EXPENSES:				
Selling, general and administrative	1,392,784	545,401	802,100	291,831
Interest expense	148,206	79,205	78,321	52,024
Total other operating expenses	1,540,990	624,606	880,421	343,855
NET INCOME (LOSS)	\$ 267,688	\$ (396,531)	\$ 161,255	\$ (181,358)
NET INCOME (LOSS) PER SHARE:				
Basic	\$ 0.01	\$ (0.02)	\$ 0.01	\$ (0.01)
Diluted	\$ 0.01	\$ (0.02)	\$ 0.01	\$ (0.01)
WEIGHTED AVERAGE NUMBER				
OF SHARES OUTSTANDING :				
Basic	25,531,132	21,952,046	26,301,619	22,157,538
Diluted	27,951,298	21,952,046	29,709,673	22,157,538

See notes to consolidated financial statements.

NeoGenomics, Inc.**CONSOLIDATED STATEMENTS OF CASH FLOWS****(unaudited)**

	For the	For the
	Six-Months	Six-Months
	Ended	Ended
	June 30, 2006	June 30, 2005
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	\$ 267,688	\$ (396,531)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation	93,629	55,688
Equity-based compensation	50,620	59,840
Provision for bad debts	143,058	30,077
Amortization of debt issue costs	10,717	7,275
Amortization of relocation expenses	23,316	-
Changes in assets and liabilities, net:		
Accounts receivables, net of write-offs	(624,633)	(251,963)
Inventory	(16,299)	(15,251)
Pre-paid expenses	(46,472)	5,765
Other current assets	-	3,474
Deposits	(11,907)	1,500
Accounts payable and other liabilities	(145,442)	(13,086)
NET CASH USED IN OPERATING ACTIVITIES	(255,725)	(513,212)
CASH FLOWS USED IN INVESTING ACTIVITIES -		
Purchases of property and equipment	(238,662)	(75,708)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Advances from affiliates, net	100,000	390,451
Issuance of notes payables	61,100	(53,587)
Issuances of common stock, net of transaction expenses	596,696	160,766
NET CASH PROVIDED BY FINANCING ACTIVITIES	757,796	497,630
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	263,409	(91,290)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	10,944	112,548
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 274,353	\$ 21,258
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Interest paid	\$ 106,627	\$ 51,309
Income taxes paid	\$ -	\$ -

SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:

Edgar Filing: NEOGENOMICS INC - Form 10QSB

Equipment leased under capital lease	128,635	-
--------------------------------------	---------	---

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). 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 and six-month periods ended June 30, 2006 are not necessarily indicative of the results that may be expected for the year ending December 31, 2006, 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, 2005 included in our Annual Report on Form 10-KSB.

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.

Stock Options Expensed

Prior to January 2006, we used Statement of Financial Accounting Standards No. 148 "Accounting for Stock-Based Compensation - Transition and Disclosure" (SFAS No. 148) to account for our stock based compensation arrangements. This statement amended the disclosure provision of FASB statement No. 123 to require prominent disclosure about the effects on reported net income of an entity's accounting policy decisions with respect to stock-based employee compensation. As permitted by SFAS No. 123 and amended by SFAS No. 148, we continued to apply the intrinsic value method under Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees," to account for

Edgar Filing: NEOGENOMICS INC - Form 10QSB

our stock-based employee compensation arrangements.

In December 2004, the Financial Accounting Standards Board issued Statement Number 123 (FAS 123 (R)), Share-Based Payments, which is effective for the reporting period beginning on January 1, 2006. The statement will require us to recognize compensation expense in an amount equal to the fair value of

share-based payments such as stock options granted to employees. We have the option to either apply FAS 123 (R) on a modified prospective method or to restate previously issued financial statements, and chose to utilize the modified prospective method. Under this method, we are required to record compensation expense (as previous awards continue to vest) for the unvested portion of previously granted awards that remain outstanding at the date of adoption.

In January 2006, we adopted the expense recognition provisions of SFAS No. 123, and for the three and six months ended June 30, 2006 recorded approximately \$10,700 and \$18,400, respectively in stock compensation expense. If we had expensed stock options for the three and six months ended June 30, 2005 the stock compensation expense would have been approximately \$4,800 and \$9,300, respectively.

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 net loss per share is computed by dividing the net loss for the period by the weighted average number of common and common equivalent shares outstanding during the period. Common equivalent shares outstanding as of June 30, 2006, which consisted of employee stock options and certain warrants issued to consultants and other providers of financing to the Company, were excluded from diluted net income (loss) per common share calculations as of such date because they were anti-dilutive.

NOTE B EQUITY AND DEBT FINANCING TRANSACTIONS AND NOTES PAYABLE

On January 18, 2006, the Company entered into a binding letter agreement (the "Aspen Agreement") with Aspen Select Healthcare, LP, which provides, among other things, that (a) Aspen has 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 shall have the right, up to April 30, 2006, to purchase up to \$200,000 of restricted shares of the Company's 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 the Company's common stock at an exercise price of \$0.26/share in connection with such purchase (the "Equity Purchase Rights"); (c) in the event that Aspen does not exercise its Equity Purchase Rights in total, the Company shall have the right to sell the difference to SKL at terms no more favorable than Aspen's Equity Purchase Rights; (d) Aspen and the Company will amend that certain Loan Agreement, dated March 23, 2005 (the "Loan Agreement") between the parties to extend the maturity date until September 30, 2007 and modify certain covenants (such Loan Agreement as amended, the "Credit Facility Amendment"); (e) Aspen shall have the right, until April 30, 2006, to provide up to \$200,000 of additional secured indebtedness to the Company under the Credit Facility Amendment and receive a five year warrant to purchase up to 450,000 shares of the Company's common stock with an exercise price of \$0.26/share (the "New Debt Rights"); (f) the Company has 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") shall be vested and the exercise price per share shall be reset to \$0.31 per share; and (g) the Company has 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.

Edgar Filing: NEOGENOMICS INC - Form 10QSB

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.

On March 14, 2006, Aspen exercised its Equity Purchase Rights and we issued to Aspen 1,000,000 restricted shares of common stock at a purchase price of \$0.20/share for \$200,000. In connection with this transaction, the Company also issued a five year warrant to purchase 450,000 shares of common stock at an exercise price of \$0.26/share.

Also 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, dated January 18, 2006. As part of the Credit Facility Amendment, the Company has the right, but not the obligation, to borrow an additional \$200,000 from Aspen. Interest on amounts outstanding under this \$1.7 million note will be charged at the rate of prime plus 6%. In connection with Aspen making such debt capital available to the Company, we issued a five year warrant to purchase 450,000 shares of common stock at an exercise price of \$0.26/share. As of June 30, 2006, \$1,500,000 has been drawn and \$200,000 is available for use.

During May of 2006, the Company borrowed an additional \$100,000 from the Aspen credit facility. At June 30, 2006 \$1,600,000 was outstanding on the credit facility and bears interest at prime plus 6%.

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 Capital.

NOTE C OTHER RELATED PARTY TRANSACTIONS

During the three and six months ending June 30, 2006, we incurred consulting expenses from a director of \$26,475 and \$33,700, respectively, for various consulting work performed in connection with managing the financial affairs of the Company and acting as the Principal Financial Officer. During the three and six months ending June 30, 2005, we incurred consulting expenses from a director of \$10,000 and \$32,500, respectively, for various consulting work performed in connection with managing the financial affairs of the Company and acting as the Principal Financial Officer.

NOTE D COMMITMENTS AND EQUIPMENT LEASES

Operating Leases

In August 2003, the Company entered into a three year operating lease for 5,200 square feet at our laboratory facility in Fort Myers, Florida. On June 29, 2006 the Company signed an amendment to the

Edgar Filing: NEOGENOMICS INC - Form 10QSB

original lease which extended the lease through June 30, 2011. The amendment included the rental of approximately 4,400 square feet adjacent to our current facility. This space will allow for future expansion of our business in 2006. This lease amendment which allowed the Company this additional space on June 1, 2006 results in total payments of approximately \$732,600 over the remaining life of the lease. Such amount excludes estimated operating and maintenance expenses and sales tax. This lease extension calls for annual increases of rental payments of 3% per annum. The rent expense for the three and six months ended June 30, 2006 was approximately \$26,400 and \$45,900, respectively.

As part of the The Center for CytoGenetics merger the Company assumed the lease of an 850 square foot facility in Nashville, Tennessee. The lease commenced on September 1, 2005 and is for three years. The average monthly rental expense is approximately \$1,350 per month. The lease expense for the three and six months ended June 30, 2006 was approximately \$3,400.

On June 15, 2006 the Company entered into a lease for an additional 5,386 square feet of laboratory space in Nashville, Tennessee. This space will be used for additional expansion of our Tennessee facility. As part of the lease we have the right of first refusal on an additional 2,420 square feet directly adjacent to the facility. The lease is a five year lease and results in total payments by the Company of approximately \$340,000. The rent expense three and six months ended June 30, 2006 was approximately \$1,500.

Capital Lease

During March 2006 the Company entered into a 5 year lease agreement for equipment. The cost of the equipment was approximately \$134,200 and requires monthly lease payments of approximately \$2,500, with an effective interest rate of 8% per annum. At June 30, 2006, approximately \$128,600 is still outstanding on this lease.

Purchase Commitment

On June 22, 2006, the Company entered into an agreement to purchase three automated FISH signal detection and analysis systems over the next 24 months for a total of \$420,000. The Company agreed to purchase two systems immediately and to purchase a third system in the next 15 months if the vendor is able to make certain improvements to its system.

End of Financial Statements

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

The following discussion and analysis should be read in conjunction with the financial statements for the three and six months ended June 30, 2006, 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 operates a cancer genetics laboratory that is targeting the rapidly growing genetic and molecular testing segment of the medical laboratory market. We operate in two laboratory locations: the first location is in Fort Myers, Florida and the second is in Nashville, Tennessee. We currently offer the following types of testing services to oncologists, pathologists, urologists, hospitals, and other laboratories that do not perform genetic testing throughout the United States: a) cytogenetics testing, which analyzes human chromosomes, b) Fluorescence In-Situ Hybridization (FISH) testing which analyzes abnormalities at the gene level, c) flow cytometry testing services, which analyzes clusters of differentiation on cell surfaces and d) molecular testing which involves testing DNA and other molecular structures to screen for and diagnose single gene disorders. All of these testing services are widely used in the diagnosis of various types of cancer. Our common stock is listed on the NASDAQ Over-the-Counter Bulletin Board (the OTCBB) under the symbol NGNM.

We believe that the genetic and molecular testing segment of the medical laboratory industry is the most rapidly growing segment of the market. Approximately five years ago, the World Health Organization reclassified cancers as being 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/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. 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.

Genetic/molecular testing typically involves analyzing chromosomes, genes or base pairs of DNA for disorders. Both genetic and molecular testing 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 MD

or PhD level) to certify the results and typically yields the highest average

Edgar Filing: NEOGENOMICS INC - Form 10QSB

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

COMPARISON OF THE MEDICAL LABORATORY MARKET SEGMENTS (1)

<u>Attributes</u>	<u>Clinical</u>	<u>Anatomic Pathology</u>	<u>Genetic/Molecular</u>
Testing Performed On	Blood, Urine	Tissue/Cells	Chromosomes/Genes/DNA
Testing Volume	High	Low	Low
Physician Involvement	Low	High - Pathologist	Low - Medium
Malpractice Ins. Required	Low	High	Low
Other Professionals Req.	None	None	Cyto/Molecular geneticist
Level of Automation	High	Low-Moderate	Moderate
Diagnostic in Nature	Usually Not	Yes	Yes
Types of Diseases Tested	Many Possible	Typically Cancer	Rapidly Growing
		\$25 - \$500/Test	
Typical Revenue Per Test	\$5 - \$35/Test	\$10.0 - \$12.0 Billion	\$200 - \$1,000/Test
Estimated Size of Market	\$25 - \$30 Billion	6.0 - 7.0% Annually	\$3.0 - \$4.0 Billion (2)
Estimated Growth Rate	4.0 -5.0%		25.0+%/ Annually
Established Competitors	Quest Diagnostics	Quest Diagnostics	Genzyme Genetics
	LabCorp	LabCorp	Quest Diagnostics
	Bio Reference Labs	Genzyme Genetics	LabCorp
	DSI Laboratories	Ameripath	Major Universities
	Hospital Labs	Local Pathologists	
	Regional Labs		

(1) Derived from industry analyst reports and company estimates.

(2) Includes flow cytometry testing, which historically has been classified under Anatomic Pathology testing.

Edgar Filing: NEOGENOMICS INC - Form 10QSB

Our primary focus is on the oncology market. We target oncologists that perform bone marrow sampling and treat patients with leukemia, lymphoma and other forms of cancer as well as urologists that treat patients with bladder cancer. 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 throughout the United States. This was successful and we landed several clients outside of the State of Florida. During the third quarter of 2005 we began testing for cervical, breast and bladder cancer. Our bladder cancer program focused around the UroVysion test has grown significantly since it started in the third quarter of 2005. As we grow, we anticipate offering additional tests that broaden our focus from genetic and molecular 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 time on oncology-related cytogenetics tests is helping to increase the usage patterns of cytogenetics tests by our referring oncologists and hematopathologists. Based on empirical data, we believe that cytogenetics labs typically 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

Edgar Filing: NEOGENOMICS INC - Form 10QSB

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. Until December 2004, we only performed one type of test, cytogenetics, in-house, which resulted in only one test being performed per customer requisition for most of FY 2004 and average revenue per requisition of approximately \$490 in FY 2004. In December 2004, we added FISH testing to our product offering, and in February 2005, we began offering flow cytometry testing services. With the addition of these two new testing platforms, our average revenue/requisition increased by 35.6% in FY 2005 to approximately \$632/requisition. This trend continued into the first half of FY 2006 with average revenue/requisition increasing to \$704 per requisition. We believe that we can continue to increase our average revenue per customer requisition with the addition of additional testing platforms and more focused marketing.

	For the Six-Months Ended June 30, 2006	For the Six-Months Ended June 30, 2005		For the Three-Months Ended June 30, 2006	For the Three-Months Ended June 30, 2005	
			% Inc (Dec)			% Inc (Dec)
Requisitions Received (cases)	4,420	970	355.7%	2,472	593	316.9%
Number of Tests Performed	6,139	1,235	397.1%	3,475	768	352.5%
Avg. # of Tests / Requisition	1.389	1.273	9.4%	1.406	1.295	8.5%
Total Testing Revenue	\$3,111,292	\$ 575,080	441.1%	\$1,767,492	\$344,888	412.5%
Avg Revenue/Requisition	\$ 703.91	\$ 592.86	18.7%	\$ 715.00	\$581.60	22.9%
Avg Revenue/Test	\$ 506.81	\$ 465.65	8.8%	\$ 508.63	\$ 449.07	13.3%

We believe this bundled offering approach could drive large increases in our revenue and afford us significant synergies and efficiencies in our operations and sales and marketing activities. For instance, initial testing for most hematological cancers may yield total revenue ranging from approximately \$1,700 - \$2,800/case and is generally comprised of one or more of the following tests: cytogenetics, fluorescence in-situ hybridization (FISH), flow cytometry, and morphology testing. Whereas in FY 2004, we only addressed approximately \$500 of this potential revenue per case, we now address approximately \$1,200 - \$1,900 of this potential revenue per case.

	<u>Avg. Rev/Test</u>
Cytogenetics	\$400-\$600
Fluorescence In Situ Hybridization (FISH)	\$400-\$600
Flow cytometry	
- Technical component	\$400-\$700
- Professional component	\$100-\$200
Morphology <u>\$400-\$700</u> Total \$1,700-\$2,800	

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.

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 Six Months Ended June 30, 2006 as Compared To The Three And Six Months Ended June 30, 2005

Revenue

Edgar Filing: NEOGENOMICS INC - Form 10QSB

For the three months ended June 30, 2006 our revenues increased 413% to approximately \$1,767,500 from approximately \$344,900 in 2005. This was the result of a 353% increase in testing volume and a 13% increase in average revenue per test. For the six months ended June 30, 2006 our revenues increased 441% to approximately \$3,111,300 from approximately \$575,100 in 2005. This was the result of an increase in testing volume of 397% and a 9% increase in revenue per test. This volume increase is the result of wide acceptance of our bundled testing product offering and our industry leading turnaround times resulting in new customers. This increase in revenue per test is a direct result of restructuring arrangements with lower revenue per test and pricing policies with new customers.

Cost of Revenue

For the three months ended June 30, 2006 our cost of revenue increased 298% to approximately \$725,800 from approximately \$182,400 in 2005. This was the result of the 353% increase in testing volume and is explained primarily as follows:

Increase of approximately 279% in employee and contract labor related costs

Increase of approximately 282% in supply costs; and

Increase of approximately 312% in postage and delivery costs

For the six months ended June 30, 2006 our cost of revenue increased 275% to approximately \$1,302,600 from approximately \$347,000 in 2005. This was the result of the 397% increase in testing volume and is explained primarily as follows:

Increase of approximately 226% in employee and contract labor related costs

Increase of approximately 414% in supply costs; and

Increase of approximately 323% in postage and delivery costs

Gross Profit

As a result of the revenue and cost of revenue our gross profit percentage for the three months ended June 30, 2006 increased to 59% from 47% for the three months ended June 30, 2005. The gross profit percentage for the six months ended June 30, 2006 increased to approximately 58% from approximately 40% for the six months ended June 30, 2005.

Selling, General and Administrative Expenses

During the three months ended June 30, 2006, our selling, general and administrative expenses increased by approximately 175% to approximately \$802,100 from approximately \$291,800 in the three months ended June 30, 2005. For the six months ended June 30, 2006, our selling, general and administrative expenses increased by approximately 155% to approximately \$1,392,800 from approximately \$545,400 in the three months ended June 30, 2005. This increase was primarily as a result of higher personnel and personnel-related expenses associated with increased levels of volumes as described above and a 157% increase in headcount. 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

Edgar Filing: NEOGENOMICS INC - Form 10QSB

Interest expense for the three months ended June 30, 2006 increased approximately 51% to approximately \$78,300 from approximately \$52,000 for the three months ended June 30, 2005. Interest expense for the six months ended June 30, 2006 increased approximately 87% to approximately \$148,200 from approximately \$79,200 for the six months ended June 30, 2005. 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 to fund operations.

Net Income

As a result of the foregoing, our net income for the three months-ended June 30, 2006 increased approximately \$342,600 to approximately \$161,300 from a loss of approximately \$181,400 during the

three months-ended June 30, 2005. For the six months-ended June 30, 2006 net income increased approximately \$664,200 to approximately \$267,700 from a loss of approximately \$396,500 during the six months-ended June 30, 2005.

COMMITMENTS

Operating Leases

In August 2003, we entered into a three year operating lease for 5,200 square feet at our laboratory facility in Fort Myers, Florida. On June 29, 2006 we signed an amendment to the original lease which extended the lease through June 30, 2011. The amendment included the rental of approximately 4,400 square feet adjacent to our current facility. This space will allow for future expansion of our business in 2006. This lease amendment which allowed us this additional space on June 1, 2006 results in total payments of approximately \$732,600 over the remaining life of the lease. Such amount excludes estimated operating and maintenance expenses and sales tax. The lease calls for annual increases of rental payments of 3% per annum. The rent expense for the three and six months ended June 30, 2006 was approximately \$26,400 and \$45,900, respectively.

As part of the The Center for CytoGenetics merger we assumed the lease of an 850 square foot facility in Nashville, Tennessee. The lease commenced on September 1, 2005 and is for three years. The average monthly rental expense is approximately \$1,350 per month. The lease expense for the three and six months ended June 30, 2006 was approximately \$3,400.

On June 15, 2006, we entered into a lease for an additional 5,386 square feet of laboratory space in Nashville, Tennessee. This space will be used for additionally expansion of our Tennessee facility. As part of the lease we have the right of first refusal on additional 2,420 square feet directly adjacent to the facility. The lease is a five year lease and results in total payments by us of approximately \$340,000. The rent expense three and six months ended June 30, 2006 was approximately \$1,500.

Capital Lease

During March 2006 we entered into a 5 year lease agreement for equipment. The cost of the equipment was approximately \$134,200 and requires monthly lease payments of approximately \$2,500, with an effective interest rate of 8% per annum. At June 30, 2006, approximately \$128,600 is still outstanding on this lease.

Purchase Commitment

On June 22, 2006, we entered into an agreement to purchase three automated FISH signal detection and analysis systems over the next 24 months for a total of \$420,000. We agreed to purchase two systems immediately and to purchase a third system in the next 15 months if the vendor is able to make certain improvements to its system.

Liquidity and Capital Resources

During the six months ended June 30, 2006, our operating activities used approximately \$255,700 in cash. This amount primarily resulted from cash tied-up in receivables as a result of increased revenues and to a lesser extent cash used to pay the expenses associated with our operations as well as fund our working capital needs. We also spent approximately \$238,700 on new equipment. We were able to finance operations and equipment purchases primarily through the sale of equity securities which provided approximately \$613,600 and to a lesser extent with borrowings on the Aspen credit facility

Edgar Filing: NEOGENOMICS INC - Form 10QSB

during the six months ended June 30, 2006. At June 30, 2006, we had cash and cash equivalents of approximately \$274,400.

On January 18, 2006, we entered into a binding letter agreement (the "Aspen Agreement") with Aspen Select Healthcare, LP, which provides, among other things, that (a) Aspen has 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"); (c) in the event that Aspen did not exercise its Equity Purchase Rights in total, we had the right to sell the difference to SKL at terms no more favorable than Aspen's Equity Purchase Rights; (d) Aspen and us will amend that certain Loan Agreement, dated March 23, 2005 (the "Loan Agreement") between the parties to extend the maturity date until September 30, 2007 and modify certain covenants (such Loan Agreement as amended, the "Credit Facility Amendment"); (e) Aspen shall have 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"); (f) we 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") shall be vested and the exercise price per share shall be reset to \$0.31 per share; and (g) we have 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.

During the period from January 18 - 21, 2006, we 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 we 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 our 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, we also issued a five year warrant to purchase 900,000 shares of our common stock at an exercise price of \$0.26/share. SKL has no previous affiliation with us.

On March 14, 2006, Aspen exercised its Equity Purchase Rights and we issued to Aspen 1,000,000 restricted shares of common stock at a purchase price of \$0.20/share for \$200,000. In connection with this transaction, we also issued a five year warrant to purchase 450,000 shares of common stock at an exercise price of \$0.26/share.

Also 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, dated January 18, 2006. As part of the Credit Facility Amendment, we have the right, but not the obligation, to borrow an additional \$200,000 from Aspen. In connection with Aspen making such debt capital available to us, we issued a five year warrant to purchase 450,000 shares of common stock at an exercise price of \$0.26/share.

During May of 2006, we borrowed an additional \$100,000 from the Aspen credit facility. At June 30, 2006, \$1,600,000 was outstanding on the credit facility and bears interest at prime plus 6%.

At the present time, we anticipate that based on our current business plan, operations and the financing package we announced in January 2006 that we have sufficient cash to further manage our business for at least the next 12 months. This estimate of our cash needs does not include any additional funding which may be required for growth in our business beyond that which is planned, strategic transactions or acquisitions. To the extent we need additional capital beyond our current cash resources, the amended Credit Facility with Aspen allows us to draw an additional \$100,000 and we still have \$4,925,000 of availability under our Standby Equity Distribution Agreement with Cornell Capital. In the event that we grow faster than we currently anticipate or we engage in strategic transactions or acquisitions and our cash on hand and availability under our Credit Facility and Standby Equity Distribution Agreements is not sufficient to meet our financing needs, we may need to raise additional capital from other resources. In such event, we may not be able to obtain such funding on attractive terms or at all and we may be required to curtail its 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 \$300,000 to \$500,000 of additional capital equipment during the next twelve months. We plan to fund these expenditures through traditional lease financing from equipment lessors. We may not be eligible to obtain all of our capital equipment funding needs from 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

As of June 30, 2006, we have forty-two full-time employees. During 2006, 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 six months ended June 30, 2006, 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

In June 2006, The Company received a legal letter from Ciphergen Biosystems related to a research and license agreement stating that the Company was in breach of the contract and demanding financial restitution. The Company does not believe that this matter is material to its financial results and plans to vigorously pursue its defense of the matter.

Item 2. Unregistered Sale of Equity Securities and Use of Proceeds

On April 18, 2006, as part of the Center for Cytogenetics merger, the Company issued 100,000 shares of restricted stock to the shareholder's of the Center for Cytogenetics.

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

- (a) Exhibits - The following exhibits are filed as part of this Form 10-QSB.

Exhibit <u>Number</u>	<u>Description</u>
--------------------------	--------------------

EXHIBIT NO.	DESCRIPTION	LOCATION
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 Acting 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
32.1	Certification by Acting Principal Financial 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. None.

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: July 18, 2006

/s/ Robert P. Gasparini

Name: Robert P. Gasparini
Title: President and
Principal Executive Officer