

NEOGENOMICS INC  
Form 10QSB  
May 09, 2006

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington D.C. 20549**

**FORM 10-QSB**

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

**For the quarterly period ended March 31, 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 May 8, 2006.

**26,318,843**

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 March 31, 2006.....	4
	Consolidated Statements of Operations for the three months ended March 31, 2006 and 2005 .....	5
	Consolidated Statements of Cash Flows for the three months ended March 31, 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 .....	17

**PART II. OTHER INFORMATION**

Item 1.	Legal Proceedings. ....	18
Item 2.	Changes in Securities. ....	18
Item 3.	Defaults Upon Senior Securities.....	19
Item 4.	Submission of Matters to a Vote of Securities Holders.....	19
Item 5.	Other Information .....	19
Item 6.	Exhibits and Reports on Form 8-K.....	19
	Signatures	21

## **PART I**

### **FORWARD-LOOKING STATEMENTS**

This Form 10-QSB contains forward-looking statements relating to NeoGenomics, Inc., a Nevada corporation (referred to individually as the Parent Company or collectively with all of its subsidiaries as the Company in this Form 10-QSB), which represent the Company's current expectations or beliefs including, but not limited to, statements concerning the Company's operations, performance, financial condition and growth. For this purpose, any statements contained in this Form 10-QSB that are not statements of historical fact are forward-looking statements. Without limiting the generality of the foregoing, words such as may, anticipation, intend, could, estimate, or continue or the negative or 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, 2006****(unaudited)****ASSETS****CURRENT ASSETS:**

Cash and cash equivalents	\$ 260,081
Accounts receivable (net of allowance for doubtful accounts of \$47,712)	898,095
Inventories	46,704
Other current assets	77,953
Total current assets	1,282,833

<b>PROPERTY AND EQUIPMENT</b> (net of accumulated depreciation of \$301,002)	736,611
--	---------

<b>OTHER ASSETS</b>	12,638
---------------------	--------

<b>TOTAL</b>	<b>\$ 2,032,082</b>
--------------	---------------------

**LIABILITIES AND STOCKHOLDERS DEFICIT****CURRENT LIABILITIES:**

Accounts payable	\$ 449,776
Deferred revenue	100,000
Short-term portion of equipment lease	22,996
Accrued compensation	102,222
Accrued and other liabilities	89,732
Total current liabilities	764,726

**LONG TERM LIABILITIES:**

Line of credit (net of unamortized discount of \$79,700)	1,420,300
Long-term portion of equipment lease	111,208
Total long term liabilities	1,531,508

<b>TOTAL LIABILITIES</b>	<b>2,296,234</b>
--------------------------	------------------

**STOCKHOLDERS DEFICIT:**

Common stock, \$.001 par value, 100,000,000 shares authorized; 26,218,843 shares issued and outstanding	26,219
Additional paid-in capital	10,683,399
Deferred Stock Compensation	(59,805)
Accumulated deficit	(10,913,965)
Total stockholders deficit	(264,152)

<b>TOTAL</b>	<b>\$ 2,032,082</b>
--------------	---------------------

See notes to consolidated financial statements.



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

	For the Three-Months Ended March 31, 2006	For the Three-Months Ended March 31, 2005
<b>REVENUE</b>	\$ 1,343,800	\$ 230,192
<b>COST OF REVENUE</b>	576,797	164,614
<b>GROSS PROFIT</b>	767,003	65,578
<b>OTHER OPERATING EXPENSES:</b>		
Selling, general and administrative	590,684	253,570
Interest expense	69,885	27,182
Total other operating expenses	660,569	280,752
<b>NET INCOME (LOSS)</b>	\$ 106,434	\$ (215,174)
<b>NET INCOME (LOSS) PER SHARE:</b>		
Basic	\$ 0.00	\$ (0.01)
Diluted	\$ 0.00	\$ (0.01)
<b>WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING :</b>		
Basic	24,752,083	21,744,273
Diluted	25,512,363	21,744,273

See notes to consolidated financial statements.

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

	For the	For the
	Three-Months	Three-Months
	Ended	Ended
	March 31, 2006	March 31, 2005
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income (loss)	\$ 106,434	\$ (215,174)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation	39,691	26,414
Equity-based compensation	21,833	31,923
Provision for bad debts	63,158	8,814
Amortization of debt issue costs	5,359	576
Amortization of relocation expenses	9,482	-
Changes in assets and liabilities, net:		
Accounts receivables, net of write-offs	(410,154)	(93,926)
Inventory	13,296	(12,721)
Pre-paid expenses	(28,928)	2,883
Other current assets	-	3,474
Deposits	-	(5,000)
Accounts payable and other liabilities	(97,907)	10,515
<b>NET CASH USED IN OPERATING ACTIVITIES</b>	<b>(277,736)</b>	<b>(242,222)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES -</b>		
Purchases of property and equipment	(86,755)	(11,704)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Advances from affiliates, net	-	155,451
Debt issue costs	-	(53,587)
Issuances of common stock, net of transaction expenses	613,628	152,473
<b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>	<b>613,628</b>	<b>254,337</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>249,137</b>	<b>411</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>	<b>10,944</b>	<b>112,548</b>
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	<b>\$ 260,081</b>	<b>\$ 112,959</b>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>		
Interest paid	\$ 50,561	\$ 30,569
Income taxes paid	\$ -	\$ -



Edgar Filing: NEOGENOMICS INC - Form 10QSB

SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND  
FINANCING ACTIVITIES:

Equipment leased under capital lease	\$ 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 ). 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, 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 March 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 months ended March 31, 2006 recorded approximately \$7,700 in stock compensation expense. If we had expensed stock options for the three months ended March 31, 2005 the stock compensation expense would have been approximately \$4,500.

#### 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 March 31, 2005, 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**

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.

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 March 31, 2006, \$1,500,000 has been drawn and \$200,000 is available for use.

#### **NOTE C OTHER RELATED PARTY TRANSACTIONS**

During the three months ending March 31, 2006 and 2005, we incurred consulting expenses from a director of \$13,500 and \$22,500, 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, we entered into a three year operating lease for 5,200 square feet at our laboratory facility in Fort Myers, Florida. The lease, which commenced on August 8, 2003, currently requires average monthly rental payments of approximately \$6,300 during the lease term. Such amount includes estimated operating and maintenance expenses and sales tax and is subject to annual increases. Rent expense for the three months ended March 31, 2006 was approximately \$19,500.

The lease is due to expire on August 31, 2006. The lease contains a provision that allows us to extend the lease for two terms of three years each. We are currently in negotiations on a new lease for our facility including the lease of an additional 4,000 square feet adjacent to our current facility. This space will allow for future expansion of our business in 2006.

##### 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 March 31, 2006 the entire principal balance is still outstanding on this lease.

**NOTE E SUBSEQUENT EVENTS**

On April 18, 2006 we completed the purchase and merger of The Center for Cytogenetics, a private genetics testing company located in Nashville, Tennessee into NeoGenomics, Inc. The merger is of strategic importance

and results in the Company acquiring additional capacity, faster growth potential and a second site to mitigate the risk of weather-related phenomena common to Southwest Florida. The merger is not material to the financial statements of NeoGenomics, Inc.

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 months ended March 31, 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, Inc. , and the Company mean NeoGenomics, Inc. and subsidiaries unless otherwise indicated.

**Overview**

NeoGenomics operates a cancer genetics laboratory based in Fort Myers, Florida that is targeting the rapidly growing genetic and molecular testing segment of the medical laboratory market. The Company currently offers 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.

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 revenue per test of the three market segments. The following chart

## Edgar Filing: NEOGENOMICS INC - Form 10QSB

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 Anatomic Pathology segment, but given its rapid growth, many industry veterans now break genetic/molecular testing out into its own segment.

**COMPARISON OF THE MEDICAL LABORATORY MARKET SEGMENTS (1)**

<b><u>Attributes</u></b>	<b><u>Clinical</u></b>	<b><u>Anatomic Pathology</u></b>	<b><u>Genetic/Molecular</u></b>
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	Primarily to Rule out Cancer \$25 - \$500/Test	Rapidly Growing
Typical per Price/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	Bio Reference Labs
	Hospital Labs	Local Pathologists	Major Universities
	Regional Labs		

(1) Derived from industry analyst reports

(2) Includes flow cytometry testing, which historically been classified under anatomic pathology.

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

## Edgar Filing: NEOGENOMICS INC - Form 10QSB

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 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.

## Edgar Filing: NEOGENOMICS INC - Form 10QSB

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. We believe that with the addition of additional testing platforms and more focused marketing, we can continue to increase our average revenue per customer requisition.

	<u>Q1 2005</u>	<u>Q1 2006</u>	<u>% Inc (Dec)</u>
Customer Requisitions Rec'd (Cases)	367	1,948	430.8%
Number of Tests Performed	467	2,664	470.4%
Average Number of Tests/Requisition	1.27	1.37	7.5%
Total Testing Revenue	\$ 230,192	\$ 1,343,800	483.8%
Avg Revenue/Requisition	\$ 627.23	\$ 689.84	10.0%
Avg Revenue/Test	\$ 492.92	\$ 504.43	2.3%

We believe this bundled offering approach could 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 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

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

## Edgar Filing: NEOGENOMICS INC - Form 10QSB

those estimates. Our management routinely makes judgments and estimates about the effects of matters that are inherently uncertain.

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

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 Months ended March 31, 2006 as Compared to the Three Months ended March 31, 2005**

During the three months ended March 31, 2006, our revenues increased approximately 484% to \$1,343,800 from approximately \$230,000 during the three months ending March 31, 2005, primarily as a result of attracting new customers to our services and increasing the volume of services sold to existing customers. During the three months ending March 31, 2006, our cost of revenue increased approximately 250% to approximately \$577,000 from \$165,000 during the three months ending March 31, 2005, primarily as a result of additional costs associated with hiring more laboratory personnel to support our increased testing volumes as well as increased costs as a result of opening new lines of business. This resulted in an increase in our gross profit to approximately \$767,000 for the three months ended March 31, 2006 from approximately \$66,000 during the three months ended March 31, 2005. This change is primarily attributable to our increased revenues and testing volumes and associated economies of scale for the period ended March 31, 2006 as compared to the three month period ended March 31, 2005. Our gross margin for the three months ended March 31, 2006 was 57% but we believe that integration related cost for our Tennessee facility will cause this margin to settle in at the 50-55% range. Our gross margins for the three months ended March 31, 2005 was 36%.

During the three months ended March 31, 2006, our selling, general and administrative expenses increased by approximately 133% to approximately \$591,000 from approximately \$254,000 in the three months ended March 31, 2005. This increase was primarily as a result of higher personnel and personnel-related expenses associated with increased levels of staffing. Selling, general and administrative expenses include all of our overhead and technology expenses as well as the cost of our management and sales personnel. Interest expense for the most recent quarter increased approximately 159% to approximately \$70,000 from approximately \$27,000 for the three months ended March 31, 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.





As a result of the foregoing, our net income for the three months-ended March 31, 2006 increased approximately \$321,000 to approximately \$106,000 from a loss of approximately \$215,000 during the three months-ended March 31, 2005.

## **COMMITMENTS**

### **Operating Lease**

In August 2003, we entered into a three year operating lease for 5,200 square feet at our laboratory facility in Fort Myers, Florida. The lease, which commenced on August 8, 2003, currently requires average monthly rental payments of approximately \$6,300 during the lease term. Such amount includes estimated operating and maintenance expenses and sales tax and is subject to annual increases.

The lease is due to expire on August 31, 2006. The lease contains a provision that allows us to extend the lease for two terms of three years each. We are currently in negotiations on a new lease for our facility including the lease of an additional 4,000 square feet adjacent to our current facility. This space will allow for future expansion of our business in 2006.

### **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 March 31, 2006 the entire principal balance is still outstanding on this lease.

### **Liquidity and Capital Resources**

During the three months ended March 31, 2006, our operating activities used approximately \$278,000 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 \$87,000 on new equipment. We were able to finance operations and equipment purchases primarily through the sale of equity securities which provided approximately \$613,600 during the three months ended March 31, 2006. At March 31, 2006, we had cash and cash equivalents of approximately \$260,100.

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

## Edgar Filing: NEOGENOMICS INC - Form 10QSB

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")

## Edgar Filing: NEOGENOMICS INC - Form 10QSB

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.

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. 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.

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 \$200,000 and we still have \$4,925,000 of availability under our Standby Equity Distribution Agreement with Cornell Capital. In the event that the Company grows 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, the Company may not be able to obtain such funding on attractive terms or at all and the Company 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 \$400,000 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 March 31, 2006, we have twenty eight 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 Company's first fiscal quarter ended March 31, 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**

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

**Item 2. Changes in Securities**

On January 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.

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 an aggregate of 150,000 shares of stock 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. 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.

### **Item 3. Defaults Upon Senior Securities**

NONE

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

NONE

**Item 5. Other Information**

18



NONE

**Item 6. Exhibits and Reports on Form 8-K**

(a) Exhibits

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

<u>Exhibit Number</u>	<u>Description</u>	<u>LOCATION</u>
<b>EXHIBIT NO.</b>	<b>DESCRIPTION</b>	<b>LOCATION</b>
10.1	Amended and Restated Loan Agreement between NeoGenomics, Inc. and Aspen Select Healthcare, L.P., dated March 30, 2006	Incorporated by reference to the Company's on Form 10-KSB as filed with the United States Securities and Exchange Commission on April 1, 2006
10.5	Amended and Restated Warrant Agreement between NeoGenomics, Inc. and Aspen Select Healthcare, L.P., dated January 21, 2006	Incorporated by reference to the Company's on Form 10-KSB as filed with the United States Securities and Exchange Commission on April 1, 2006
10.6	Amended and Restated Security Agreement between NeoGenomics, Inc. and Aspen Select Healthcare, L.P., dated March 30, 2006	Incorporated by reference to the Company's on Form 10-KSB as filed with the United States Securities and Exchange Commission on April 1, 2006
10.8	Registration Rights Agreement between NeoGenomics, Inc. and Aspen Select Healthcare, L.P., dated March 30, 2006	Incorporated by reference to the Company's on Form 10-KSB as filed with the United States Securities and Exchange Commission on April 1, 2006
10.9	Warrant Agreement between NeoGenomics, Inc. and SKL Family Limited Partnership, L.P. issued January 23, 2006	Incorporated by reference to the Company's on Form 10-KSB as filed with the United States Securities and Exchange Commission on April 1, 2006
10.10	Warrant Agreement between NeoGenomics, Inc. and Aspen Select Healthcare, L.P. issued March 14, 2006	Incorporated by reference to the Company's on Form 10-KSB as filed with the United States Securities and Exchange Commission on April 1, 2006
10.11	Warrant Agreement between NeoGenomics, Inc. and Aspen Select Healthcare, L.P. issued March 30, 2006	Incorporated by reference to the Company's on Form 10-KSB as filed with the United States Securities and Exchange Commission on April 1, 2006

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

(b) Reports on Form 8-K.

## 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: May 9, 2006

/s/ Robert P. Gasparini

Robert P. Gasparini  
President and  
Principal Executive Officer

