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NEOGENOMICS INC
Form 10QSB
November 12, 2004

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 September 30, 2004.

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

Commission File Number: 333-72097

NeoGenomics, Inc.

(Exact name of registrant as specified in charter)

Nevada

(State or other jurisdiction of incorporation or organization)

74-2897368

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

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

(Address of principal executive offices)

(239) 768-0600

(Registrant's Telephone Number, Including Area Code)

Check whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES (X) NO ()

State the number of shares outstanding of each of the issuer's classes of common equity, as of October 29, 2004.

21,539,416

Transitional Small Business Disclosure Format:

YES () NO (X)

NeoGenomics, Inc.

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PART I

FORWARD-LOOKING STATEMENTS

This Form 10-QSB, press releases and certain information provided periodically in writing or orally by our officers or our agents contain statements which constitute forward-looking statements within the meaning of Section 27A of the Securities Act, as amended; Section 21E of the Securities Exchange Act of 1934; and the Private Securities Litigation Reform Act of 1995. The words "may", "would", "could", "will", "expect", "estimate", "anticipate",

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"believe", "intend", "plan", "goal", and similar expressions and variations thereof are intended to specifically identify forward-looking statements. These statements appear in a number of places in this Form 10-QSB and include all statements that are not statements of historical fact regarding the intent, belief or current expectations of us, our directors or our officers, with respect to, among other things: (i) our liquidity and capital resources; (ii) our financing opportunities and plans; (iii) trends affecting our future financial condition or results of operations; (iv) our growth strategy and operating strategy; and (v) the declaration and payment of dividends.

Investors and prospective investors are cautioned that any such forward-looking statements are not guarantees of future performance and involve risks and uncertainties, and that actual results may differ materially from those projected in the forward-looking statements as a result of various factors. The factors that might cause such differences include, among others, the following: (i) we have incurred significant losses since our inception, and have experienced and continue to experience negative operating margins and negative cash flows from operations (see Note B to the financial statements); (ii) any material inability of us to successfully internally develop our products; (iii) any adverse effect or limitations caused by Governmental regulations; (iv) any adverse effect on our cash flow or on our ability to obtain acceptable financing in connection with our growth plans; (v) any increased competition in our business; (vi) any inability of us to successfully conduct our business in new markets; and (vii) other risks including those identified in our filings with the Securities and Exchange Commission. We undertake no obligation to publicly update or revise the forward looking statements made in this Form 10-QSB to reflect events or circumstances after the date of this Form 10-QSB or to reflect the occurrence of unanticipated events.

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NeoGenomics, Inc.

CONSOLIDATED BALANCE SHEET AS OF September 30, 2004 (unaudited)

ASSETS

CURRENT ASSETS:

Cash and cash equivalents	\$	323,604
Accounts receivable (net of allowance for doubtful accounts of \$3,454)		66,347
Inventories		6,222
Other current assets		<u>10,883</u>
Total current assets		407,056

PROPERTY AND EQUIPMENT (net of accumulated depreciation of \$150,648)

347,251

OTHER ASSETS - Deposits

2,681

TOTAL

\$ 756,988
=====

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LIABILITIES AND STOCKHOLDERS' DEFICIT

CURRENT LIABILITIES:

Accounts payable	\$ 10,978
Deferred revenue	110,000
Accrued and other liabilities	44,128
Due to affiliates	<u>728,666</u>
Total current liabilities	<u>893,772</u>

STOCKHOLDERS' DEFICIT:

Common stock, \$.001 par value, 100,000,000 shares authorized; 21,539,416 shares issued and outstanding	21,539
Additional paid-in capital	9,555,140
Deficit	<u>(9,713,463)</u>
Total stockholders' deficit	<u>(136,784)</u>

TOTAL	\$ 756,988 =====
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See notes to consolidated financial statements.

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NeoGenomics, Inc.

**CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited)**

	For the Nine-Months Ended Sept 30, <u>2004</u>	For the Nine-Months Ended Sept 30, <u>2003</u>	For the Three-Months Ended Sept 30, <u>2004</u>	For the Three-Months Ended Sept 30, <u>2003</u>
REVENUE	\$ 422,254	\$ 233,418	\$ 121,859	\$ 90,240
COST OF REVENUE	<u>417,133</u>	<u>335,634</u>	<u>132,773</u>	<u>127,418</u>
GROSS (DEFICIT) PROFIT	<u>5,121</u>	<u>(102,216)</u>	<u>(10,914)</u>	<u>(37,178)</u>
OTHER OPERATING EXPENSES:				
Selling, general and administrative	447,510	263,730	137,091	88,390
Interest expense	<u>66,820</u>	<u>25,769</u>	<u>22,851</u>	<u>12,546</u>
Total other operating expenses	<u>514,330</u>	<u>289,499</u>	<u>159,942</u>	<u>100,936</u>
NET INCOME (LOSS)	\$ (509,209) =====	\$ (391,715) =====	\$ (170,856) =====	\$ (138,114) =====

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NET INCOME (LOSS) PER SHARE--

Basic and Diluted	\$ (0.03)	\$ (0.03)	\$ (0.01)	\$ (0.01)
	=====	=====	=====	=====

**WEIGHTED AVERAGE NUMBER
OF SHARES OUTSTANDING -**

Basic and Diluted	19,350,912	13,015,319	20,785,612	18,449,416
	=====	=====	=====	=====

See notes to consolidated financial statements.

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NeoGenomics, Inc.

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

	For the Nine-Months Ended Sept 30, <u>2004</u>	For the Nine-Months Ended Sept 30, <u>2003</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (509,209)	\$ (391,715)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation	64,908	36,831
Provision for bad debts	12,694	12,299
Non-cash expenses	-	30,346
Changes in assets and liabilities, net:		
(Increase) decrease in accounts receivables, net of write-offs	(15,179)	(21,088)
(Increase) decrease in inventory	4,370	5,767
(Increase) decrease in pre-paid expenses	(2,217)	(7,315)
(Increase) decrease in other current assets	(6,040)	2,000
(Increase) decrease in deposits	4,540	3,916
Increase (decrease) in due to bank	-	(13,518)
Increase (decrease) in deferred revenues	-	-
Increase (decrease) in accounts payable and other liabilities	<u>(61,069)</u>	<u>(54,428)</u>
NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES	<u>(507,202)</u>	<u>(396,905)</u>
CASH FLOWS FROM INVESTING ACTIVITIES -		
Purchases of property and equipment	<u>(14,473)</u>	<u>(28,958)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Advances from affiliates, net	80,000	351,334
Issuances of common stock, net		

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of transaction expenses	<u>740,228</u>	<u>114,271</u>
NET CASH PROVIDED BY FINANCING ACTIVITIES	<u>820,228</u>	<u>465,605</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	298,553	39,742
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	<u>25,051</u>	<u>-</u>
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 323,604 =====	\$ 39,742 =====

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:

Interest paid	\$ 86,474 =====	\$ 3,695 =====
Income taxes paid	\$ - =====	\$ - =====

See notes to consolidated financial statements.

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NeoGenomics, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

NOTE A - ORGANIZATION AND DESCRIPTION OF BUSINESS

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

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

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

Basis of Presentation

Our accompanying unaudited consolidated financial statements have been prepared

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in accordance with accounting principles generally accepted in the United States of America for interim financial information and the instructions to Form 10-QSB and Rule 10-1 of Regulation S-X of the Securities and Exchange Commission (the "SEC"). Accordingly, these consolidated financial statements do not include all of the footnotes required by accounting principles generally accepted in the United States of America. In our opinion, all adjustments (consisting of normal and recurring adjustments) considered necessary for a fair presentation have been included. Operating results for the nine months ended September 30, 2004 are not necessarily indicative of the results that may be expected for the year ended December 31, 2004. The accompanying consolidated financial statements and the notes thereto should be read in conjunction with our audited consolidated financial statements as of and for the year ended December 31, 2003 contained in our Form 10-KSB.

Principles of Consolidation

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

Revenue Recognition

Net revenues are recognized in the period when tests are performed and consist primarily of net patient revenues that are recorded based on established billing rates less estimated discounts for contractual allowances principally for patients covered by Medicare, Medicaid and managed care and other health plans. These revenues also are subject to review and possible audit by the payers. We believe that adequate provision has been made for any adjustments that may result from final determination of amounts earned under all the above arrangements. There are no known material claims, disputes or unsettled matters

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with any payers that are not adequately provided for in the accompanying consolidated financial statements.

Accounts Receivable and Allowance for Doubtful Accounts

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

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires us to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. The reported amounts of revenues and expenses during the reporting period may be affected by the estimates and assumptions we are required to make. Estimates that are critical to the accompanying consolidated financial statements include estimates related to contractual adjustments, and

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the allowance for doubtful accounts. It is at least reasonably possible that our estimates could change in the near term with respect to these matters.

NOTE B - GOING CONCERN

Our consolidated financial statements were prepared using accounting principles generally accepted in the United States of America applicable to a going concern, which contemplates the realization of assets and liquidation of liabilities in the normal course of business. We have incurred significant losses since our inception, and have experienced and continue to experience negative cash flows from operations. In addition, we expect to have ongoing requirements for substantial additional capital investment to implement our business plan. Since our inception, our operations have been funded through private equity and debt, and we expect to continue to seek additional funding through private or public equity and debt. As discussed in Note C, in connection with this matter, in April 2003, we secured a commitment from a related entity to provide us with \$1.5 million of debt financing in the form of a revolving credit facility. In addition, as discussed at Note D, during the period January 1, 2004 through September 30, 2004 we raised approximately \$760,000 from the sale of our common stock, and we anticipate selling additional shares in the future. Finally, we have begun to ramp up our laboratory operations and generate operating revenues. However, there can be no assurance that cash generated from operating and financing activities will be adequate to meet our needs. These factors, among others, indicate that we may be unable to continue as a going concern for a reasonable period of time.

Our consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts and classification of liabilities that might be necessary should we be unable to continue as a going concern.

NOTE C - RELATED PARTY TRANSACTIONS

During 2003, we paid \$72,500 to one of our Directors for various consulting work in connection with helping to organize and manage our financial affairs. During the nine months ended September 30, 2004, we incurred and paid \$44,000 to this same Director for his continued services.

During 2002, we borrowed funds from the Naples Women's Center ("NWC"), a company owned by our Chairman, to meet our short-term cash needs. These amounts were advanced to us with a stated interest rate of 8% and an initial maturity date of October 2004. At September 30, 2004, we owed NWC approximately \$28,700 under this arrangement which amount remains outstanding as of the date of this 10-QSB.

In late 2002 and early 2003, in order to meet short term cash needs, we borrowed \$177,000 from three individuals who are affiliates of Medical Venture Partners, LLC ("Medical Venture Partners"), a venture capital firm with whom we were negotiating a financing transaction (see below). These amounts, having a stated interest rate of 8%, were repaid in April 2003 in connection with the financing transaction described below.

On April 15, 2003, we entered into debt and equity financing agreements with Medical Venture Partners and its principals. Under the terms of the agreements, affiliates of Medical Venture Partners purchased approximately 75% of our

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outstanding common stock at that time and agreed to make available up to \$1.5 million of debt financing in the form of a revolving credit facility (the "Credit Facility"), with a stated interest rate of prime + 8%. The debt financing and approximately 50.4% of the equity investment are being made through MVP 3, LP, a fund controlled by Medical Venture Partners. The remainder of the equity investment was made by the three principals of Medical Venture Partners acting individually.

Under the terms of the Credit Facility, we are able to borrow up to \$500,000 on an unsecured basis, plus an amount not exceeding 80% of our "eligible" accounts receivable (as defined) and 50% of our net furniture and equipment balance. At September 30, 2004 we owed MVP 3, LP \$700,000 under the Credit Facility and had approximately \$7,400 of due, but unpaid interest in our accounts payable balance. Advances are secured by substantially all of the assets in the accompanying consolidated balance sheet; however such security interest is subordinate to the first security interest we granted to Fifth Third Bank, an unrelated financial institution that has entered into a separate loan agreement with MVP 3, LP and its principals. The Company is also a guarantor of certain parts of this indebtedness with Fifth Third Bank. The Credit Facility matures on March 31, 2005 and all amounts outstanding thereunder (including any unpaid interest) are due at that time.

With respect to this agreement, we are subject to the following restrictive covenants: (i) we are not to incur indebtedness outside of this agreement in excess of \$50,000 without written authorization of MVP3, L.P., (ii) we cannot declare or pay any dividend on our common stock, and (iii) we are also subject to other general covenants typical of an instrument of this kind. In addition, as a condition to these transactions, the Company, our President, MVP 3 LP and the principals of Medical Venture Partners entered into a shareholders agreement that provides that MVP 3, LP will have the right to appoint up to four of seven of our directors. We also entered into a Registration Rights Agreement with MVP 3 LP and the principals of Medical Venture Partners granting them certain demand and piggyback registration rights.

NOTE D - EQUITY FINANCING TRANSACTIONS

During the nine months ended September 30, 2004, we sold 3,040,000 shares of our common stock in a series of private placements at \$0.25/share to unaffiliated third party investors. These transactions generated net proceeds to the Company of approximately \$740,000 after deducting certain transaction expenses. Under the terms of the stock purchase agreements used in these transactions, the Company has agreed to use its reasonable best efforts to file with the SEC within 180 days of any transaction, and to cause to be declared effective thereafter, a resale registration statement which includes the shares purchased by such third party investors. As of October 30, 2004, the Company had not filed such resale registration statement with the SEC and is in breach of such

provision under two of the stock purchase agreements executed with third party investors. The Company currently anticipates filing such resale registration statement by year-end.

NOTE E - STOCK OPTIONS

During the nine months ended September 30, 2004, options to purchase 50,000

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shares of stock were exercised for an aggregate exercise price of \$3,500. Also during this period, the Company agreed to issue 895,000 new stock options. The options, which were granted at prices that equaled the trading value of our common stock on the date of the grants, carry a weighted average exercise price of \$0.23/share and vest according to both the passage of time and meeting certain performance milestones.

NOTE F - SUBSEQUENT EVENTS

Subsequent to September 30, 2004 our Board of Directors authorized the issuance of up to 200,000 stock warrants in connection with a one year consulting contract with vesting based on the passage of time as well as the meeting of certain performance criteria. In addition, our Board of Directors also authorized the issuance of up to 100,000 incentive stock options in connection with the appointment of an independent director for the Company.

End of Financial Statements

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

Overview

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

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

The vision of NeoGenomics is to merge a high-end genetic and molecular testing laboratory with ongoing research activities to help bridge the gap between clinical medicine and genomic research. We believe that this combination will allow the Company to speed the process of discovery and innovation and develop new advanced testing methods to identify the genetic and molecular causes of disease. Over the last 3-4 years, advances in technology and genetic research, including the complete sequencing of the human genome, have made possible a whole new set of tools to diagnose and treat diseases. This has opened up a vast opportunity for laboratory companies that are positioned to address this growing market segment.

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

- o clinical lab testing,

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

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

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

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Both cytogenetics and molecular biology have become important and accurate diagnostic tools over the last five years and new tests are being developed rapidly, thus this market segment is expanding rapidly. Genetic/molecular testing requires very specialized equipment and credentialed individuals (typically PhD level) to certify the results. As a result of the sophistication involved in performing these tests, we believe that genetic/molecular testing typically has the highest average revenue/test of the medical laboratory sub segments.

Comparison of the Medical Testing Laboratory Market Segments:

<u>Attributes</u>	<u>Clinical</u>	<u>Anatomic Pathology</u>	<u>Genetic/Molecular</u>
Testing Performed On	Blood, Urine	Tissue/cells	Chromosomes/ molecules
Volume	High	Low	Low
Physician Involvement	Low	High - Pathologist	Low
Malpractice Insur. Required	Low	High	Low
Other Professionals Req.	None	None	Cyto Geneticist/ Molecular Geneticist
Level of Automation	High	None	Moderate
Diagnostic in Nature	Usually Not	Yes	Yes
Types of Diseases Tested	Many Possible	Primarily Cancer	Rapidly Growing
Estimated Revenue/Test (1)	\$5 - \$35/Test	\$25 - \$400/Test	\$200 - \$800/Test
Estimated Size of Market	\$25 - \$30 Billion	\$6.0 - \$7.0 Billion	\$1.0 - \$2.0 Billion
Estimated Annual Growth Rate of Market	4.0 -5.0%	6.0 -7.0%	25.0 - 40%+

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Source: Research Analysts and Company Estimates

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

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

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

The following discussion and analysis should be read in conjunction with the financial statements for the three and nine months ended September 30, 2004, included with this Form 10-QSB. Readers are also referred to the cautionary statement, which addresses forward-looking statements made by us.

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Critical Accounting Policies

Our critical accounting policies, including the assumptions and judgments underlying them, are disclosed in the Notes to the Financial Statements for the fiscal year ended December 31, 2003 included in our Form 10-KSB. We have consistently applied these policies in all material respects. At this stage of our development, these policies primarily address matters of revenue and expense recognition. Management does not believe that our operations to date have involved uncertainty of accounting treatment, subjective judgment, or estimates, to any significant degree.

Results of Operations for the Three Months ended September 30, 2004 as Compared to the Three Months ended September 30, 2003

During the three months ended September 30, 2004, we generated revenues and costs of revenues of approximately \$122,000 and \$133,000, respectively, versus revenues and costs of revenues of approximately \$90,000 and \$127,000, respectively for the three months ended September 30, 2003. This resulted in a

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gross margin deficit of approximately \$11,000 for the three months ended September 30, 2004, which is a 70% improvement over the gross margin deficit of approximately \$37,000 reported for the three months ended September 30, 2003. This change is primarily attributable to our 35% increase in revenues for the period ended September 30, 2004 as compared to the period ended September 30, 2003. This increase was offset by additional costs associated with moving to a new laboratory facility in August 2003, which is included for the entire three month period ending September 30, 2004. We believe our gross margin will continue to improve as we perform more tests. During the most recent quarter, we further increased our penetration into existing referral sources for cytogenetics tests, which helped to offset the historical reduction in testing volumes attributable to seasonality issues associated with our geographic market. However, penetration into new referral sources during the three month period ending September 30, 2004 was impacted by the unprecedented four hurricanes that hit Florida during August and September 2004.

Our selling, general and administrative expenses for the most recent quarter were approximately \$137,000, versus selling, general and administrative expenses of approximately \$88,000 for the three months ended September 30, 2003. This increase was primarily due to an increase in headcount to support the growth of our operations. Interest expense for the most recent quarter was approximately \$23,000, compared to approximately \$13,000 of interest reported for the three months ended September 30, 2003. Interest expense is primarily comprised of interest payable on advances under our Credit Facility as well as interest payable on advances from other related parties and the increase is primarily a result of our increased borrowing.

Results of Operations for the Nine Months ended September 30, 2004 as Compared to the Nine Months ended September 30, 2003

During the nine months ended September 30, 2004, we generated revenues and costs of revenues of approximately \$422,000 and \$417,000, respectively, versus revenues and costs of revenues of approximately \$233,000 and \$336,000, respectively, for the nine months ended September 30, 2003. This resulted in a positive gross margin of approximately \$5,000 for the nine months ended September 30, 2004, which is an approximately \$107,000 improvement over the gross margin deficit of approximately \$102,000 reported for the nine months ended September 30, 2003. This change is primarily attributable to our 81% increase in revenues for the period ended September 30, 2004 as compared to the period ended September 30, 2003. This increase was offset by additional costs associated with moving to a new laboratory facility in August 2003 and costs of additional laboratory personnel required to handle the substantial increase in testing volumes versus the prior period.

Our selling, general and administrative expenses for the nine months ended September 30, 2004 were approximately \$448,000, versus selling, general and administrative expenses of approximately \$264,000 for the nine months ended September 30, 2003. This increase was primarily due to an increase in sales and management headcount to support the growth of our operations. Interest expense for the nine months ended September 30, 2004 was approximately \$67,000, compared to approximately \$26,000 of interest reported for the nine months ended September 30, 2004. Interest expense is primarily comprised of interest payable on advances under our Credit Facility as well as interest payable on advances from other related parties and the increase is primarily a result of our

increased borrowing.

Liquidity and Capital Resources

During the nine months ended September 30, 2004, our operating activities used approximately \$507,000 in cash. This amount primarily represented cash used to pay general and administrative expenses associated with our operations and fund our working capital needs. We also spent approximately \$14,000 on new equipment. We were able to finance operations and equipment purchases primarily through the sale of equity securities and net advances under our Credit Facility, which together provided approximately \$820,000 over the nine months ended September 30, 2004. At September 30, 2004, we had cash and cash equivalents of approximately \$324,000.

During the nine months ended September 30, 2004, we sold 3,040,000 shares of our common stock in a series of private placements at \$0.25/share to unaffiliated third party investors. These transactions generated net proceeds to the Company of approximately \$740,000 after deducting for certain transaction expenses. Under the terms of the stock purchase agreements used in these transactions, the Company has agreed to use its reasonable best efforts to file with the SEC within 180 days of any transaction, and to cause to be declared effective thereafter, a resale registration statement which includes the shares purchased by such third party investors. As of October 30, 2004, the Company had not filed such resale registration statement with the SEC and is in breach of such provision under two of the stock purchase agreements executed with third party investors. The Company currently anticipates filing such resale registration statement by year-end.

On April 15, 2003, we entered into equity and debt financing agreements with Medical Venture Partners and its principals. Under the terms of the equity agreements, affiliates of Medical Venture Partners purchased 13,927,062 shares of our common stock for \$0.01 per share which resulted in net proceeds to the company of \$114,271 after deducting transaction expenses of approximately \$25,000. As a result of these equity transactions, the Company experienced a change of control. Under the terms of the debt financing agreements, MVP 3, LP, a partnership controlled by Medical Venture Partners, agreed to make available up to \$1.5 million of debt financing in the form of a revolving credit facility (the "Credit Facility").

Under the terms of the Credit Facility, our advances are limited, at any given time, to the sum of i) 50% of our net property, plant and equipment; (ii) 80% of our accounts receivable that are less than 90 days old; and (iii) \$500,000 that is not tied to any specific collateral. Interest under the revolving credit agreement is payable monthly at the prime rate plus 8.0%. As of September 30, 2004, we had approximately \$700,000 in principal amount outstanding under the Credit Facility.

Over the next twelve months, we plan to finance our operations through cash on hand, sales of equity securities and borrowings under the Credit Facility with MVP 3. While we believe that, based on our current business plan, these sources will be sufficient to finance our operations over the next twelve months, there can be no assurance that we will have sufficient cash on hand or be able to realize a sufficient amount of capital from the sale of equity securities or have sufficient availability under our Credit Facility to fund our operations.

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If we are unable to obtain such funding, we will be required to curtail or discontinue operations.

Capital Expenditures

We currently forecast capital expenditures for the coming year in order to execute on our business plan. We plan to fund these expenditures through borrowings under our Credit Facility with MVP 3, LP and through traditional lease financing from equipment lessors. There can be no assurance that we will be eligible to obtain all of our capital equipment funding needs from MVP 3, LP or another source. If we are unable to obtain such funding, we will be required to curtail our equipment purchases, which may have an impact on our ability to generate revenues.

Staffing

We plan to increase our work force. Currently, we have six full-time and two part-time employees and three consultants that provide services to the Company. We plan to add additional laboratory technicians and research scientists 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.

Item 3 - CONTROLS AND PROCEDURES

We maintain disclosure controls and procedures designed to ensure that information required to be disclosed in reports filed under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the specified time periods. As of the end of the period covered by this report, our Chief Executive and Principal Financial Officer evaluated the effectiveness of our disclosure controls and procedures. Based on the evaluation, which disclosed no significant deficiencies or material weaknesses, our Chief Executive and Principal Financial Officer concluded that our disclosure controls and procedures are effective as of the end of the period covered by this report. There were no changes in our internal control over financial reporting that occurred during the most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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PART II. - OTHER INFORMATION

Item 1. Legal Proceedings

NONE

Item 2. Changes in Securities

During the nine months ended September 30, 2004, we sold 3,040,000 shares of our common stock at \$0.25/share, which generated net proceeds to the Company, after deducting certain transaction expenses, of approximately \$740,000. These shares are initially restricted shares, however, the Company has agreed to use its reasonable best efforts to file with the SEC within 180 days after any

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transaction, and cause to become effective thereafter, a resale registration statement covering such shares. In addition, during the nine months ended September 30, 2004, options to purchase 50,000 shares were exercised for an aggregate exercise price of \$3,500.

Item 3. Defaults Upon Senior Securities

NONE

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

NONE

Item 5. Other Information

NONE

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

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

Exhibit Number	Description
31.1	Certification of NeoGenomics, Inc. Chief Executive and Principal Financial Officer, Thomas H. White, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of NeoGenomics, Inc. Chief Executive and Principal Financial Officer, Thomas H. White, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(b) Reports on Form 8-K.

No reports on Form 8-K were filed with the SEC during the period covered by this report.

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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: November 10, 2004

/s/ Thomas H. White
Thomas H. White
Chief Executive and

