

NEOGENOMICS INC  
Form 10-Q  
August 16, 2010

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

FORM 10-Q

(Mark One)

R QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2010.

or

£ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 333-72097

NEOGENOMICS, INC.  
(Exact name of registrant as specified in its 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,  
Florida  
(Address of principal executive offices)

33913  
(Zip Code)

(239) 768-0600  
(Registrant's telephone number, including area code)

Indicate by check mark 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  R No  £

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  £ No  £

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Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act:

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company   
(Do not check if a smaller reporting company)

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

As of August 9, 2010, the registrant had 37,380,224 shares of common stock, par value \$0.001 per share outstanding.

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## FORWARD-LOOKING STATEMENTS

The information in this Quarterly Report on Form 10-Q 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 “NeoGenomics” or the “Company”), within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), which are subject to the “safe harbor” created by those sections. These “forward looking statements” 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-Q that are not statements of historical fact are forward-looking statements. Without limiting the generality of the foregoing, words such as “anticipates,” “believes,” “estimates,” “expects,” “intends,” “may,” “plans,” “projects,” “will,” “negative or other comparable terminology are intended to identify forward-looking statements, although not all forward-looking statements contain these identifying words. These statements by their nature involve substantial risks and uncertainties, such as credit losses, dependence on management and key personnel, variability of quarterly results, competition and the ability of the Company to continue its growth strategy, 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.

## PART I — FINANCIAL INFORMATION

## Item 1. Financial Statements

NEOGENOMICS, INC.  
CONDENSED CONSOLIDATED BALANCE SHEETS  
(in thousands, except share data)

|   | June 30, 2010<br>(unaudited) | December 31,<br>2009 |
|---|------------------------------|----------------------|
| <b>ASSETS</b>   |                              |                      |
| <b>CURRENT ASSETS</b>   |                              |                      |
| Cash and cash equivalents   | \$ 2,177                     | \$ 1,631             |
| Restricted cash   | 500                          | 1,000                |
| Accounts receivable (net of allowance for doubtful accounts of \$933 and \$589, respectively)   | 5,385                        | 4,632                |
| Inventories   | 807                          | 602                  |
| Other current assets  | 653                          | 655                  |
| <b>Total current assets</b>   | <b>9,522</b>                 | <b>8,520</b>         |
| <b>PROPERTY AND EQUIPMENT</b> (net of accumulated depreciation of \$3,624 and \$2,787 respectively)   | <b>5,042</b>                 | <b>4,340</b>         |
| <b>OTHER ASSETS</b>   | <b>87</b>                    | <b>85</b>            |
| <b>TOTAL ASSETS</b>   | <b>\$ 14,651</b>             | <b>\$ 12,945</b>     |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>   |                              |                      |
| <b>CURRENT LIABILITIES</b>  |                              |                      |
| Accounts payable  | \$ 2,049                     | \$ 1,969             |
| Accrued compensation  | 1,275                        | 1,308                |
| Accrued expenses and other liabilities  | 508                          | 465                  |
| Short-term portion of equipment capital leases  | 2,031                        | 1,482                |
| Revolving credit line   | 2,969                        | 552                  |
| <b>Total current liabilities</b>  | <b>8,832</b>                 | <b>5,776</b>         |
| <b>LONG TERM LIABILITIES</b>  |                              |                      |
| Long-term portion of equipment capital leases   | 1,436                        | 1,526                |
| <b>TOTAL LIABILITIES</b>  | <b>10,268</b>                | <b>7,302</b>         |
| <b>STOCKHOLDERS' EQUITY</b>   |                              |                      |
| Common stock, \$.001 par value, (100,000,000 shares authorized; 37,341,285 and 37,185,078 shares issued and outstanding at June 30, 2010 and December 31, 2009, respectively) | 37                           | 37                   |
| Additional paid-in capital  | 24,229                       | 23,762               |

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|   |                  |                  |
|---|------------------|------------------|
| Accumulated deficit                               | (19,883)         | (18,156)         |
| Total stockholders' equity                        | 4,383            | 5,643            |
| <b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b> | <b>\$ 14,651</b> | <b>\$ 12,945</b> |

See notes to unaudited condensed consolidated financial statements.

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NEOGENOMICS, INC.  
 CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
 (in thousands, except per share amounts)  
 (unaudited)

|  | For the Three Months Ended<br>June 30, |            | For the Six Months Ended<br>June 30, |            |
|--|--|------------|--------------------------------------|------------|
|  | 2010                                   | 2009       | 2010                                 | 2009       |
| NET REVENUE  | \$ 8,490                               | \$ 7,459   | \$ 16,908                            | \$ 14,373  |
| COST OF REVENUE  | 4,575                                  | 3,384      | 8,918                                | 6,475      |
| GROSS PROFIT   | 3,915                                  | 4,075      | 7,990                                | 7,898      |
| <b>OPERATING EXPENSES</b>                                |  |            |                                      |            |
| General and administrative                               | 2,769                                  | 2,215      | 5,671                                | 4,555      |
| Sales and marketing                                      | 1,943                                  | 1,722      | 3,706                                | 3,056      |
| Total operating expenses                                 | 4,712                                  | 3,937      | 9,377                                | 7,612      |
| INCOME (LOSS) FROM OPERATIONS                            | (797)                                  | 138        | (1,387)                              | 286        |
| INTEREST AND OTHER INCOME (EXPENSE) -<br>NET             | (181)                                  | (130)      | (341)                                | (245)      |
| NET INCOME (LOSS)  | \$ (978)                               | \$ 8       | \$ (1,728)                           | \$ 41      |
| <b>NET INCOME (LOSS) PER SHARE</b>                       |  |            |                                      |            |
| - Basic  | \$ (0.03)                              | \$ 0.00    | \$ (0.05)                            | \$ 0.00    |
| - Diluted  | \$ (0.03)                              | \$ 0.00    | \$ (0.05)                            | \$ 0.00    |
| <b>WEIGHTED AVERAGE NUMBER OF SHARES<br/>OUTSTANDING</b> |  |            |                                      |            |
| - Basic  | 37,307,232                             | 33,066,941 | 37,264,112                           | 32,655,972 |
| - Diluted  | 37,307,232                             | 38,485,914 | 37,264,112                           | 36,864,793 |

See notes to unaudited condensed consolidated financial statements.

NEOGENOMICS, INC.  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
(in thousands)  
(unaudited)

|  | For the Six Months Ended June 30, |               |
|--|-----------------------------------|---------------|
|  | 2010                              | 2009          |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>  |                                   |               |
| Net income (loss)  | \$ (1,728)                        | \$ 41         |
| Adjustments to reconcile net income (loss) to net cash (used in) operating activities: |                                   |               |
| Provision for bad debts  | 1,166                             | 934           |
| Depreciation   | 838                               | 503           |
| Amortization of debt issue costs   | 28                                | 30            |
| Stock-based compensation   | 226                               | 171           |
| Non-cash consulting expenses   | 127                               | 30            |
| Changes in assets and liabilities, net:  |                                   |               |
| (Increase) decrease in accounts receivable, net of write-offs                          | (1,919)                           | (2,192)       |
| (Increase) decrease in inventories   | (205)                             | (107)         |
| (Increase) decrease in prepaid expenses  | (26)                              | (183)         |
| (Increase) decrease in deposits  | (2)                               | (24)          |
| Increase (decrease) in accounts payable and other liabilities                          | 7                                 | 264           |
| <b>NET CASH USED IN OPERATING ACTIVITIES</b>   | <b>(1,488)</b>                    | <b>(533)</b>  |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>  |                                   |               |
| Purchases of property and equipment  | (500)                             | (139)         |
| <b>NET CASH USED IN INVESTING ACTIVITIES</b>   | <b>(500)</b>                      | <b>(139)</b>  |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>  |                                   |               |
| Proceeds from capital lease obligations  | 147                               | 97            |
| Advances on credit facility  | 2,405                             | 711           |
| Repayment of capital leases and loans  | (634)                             | (325)         |
| Decrease in restricted cash  | 500                               | -             |
| Issuance of common stock and warrants for cash, net of transaction expenses            | 116                               | 419           |
| <b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>                                       | <b>2,534</b>                      | <b>902</b>    |
| <b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>                                       | <b>546</b>                        | <b>230</b>    |
| <b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>                                  | <b>1,631</b>                      | <b>468</b>    |
| <b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>  | <b>\$ 2,177</b>                   | <b>\$ 698</b> |
| <b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>                                |                                   |               |
| Interest paid  | \$ 313                            | \$ 214        |
| Income taxes paid  | \$ 6                              | \$ —          |
| <b>NON-CASH INVESTING AND FINANCING ACTIVITIES</b>                                     |                                   |               |
| Equipment leased under capital leases  | \$ 1,103                          | \$ 686        |
| Equipment purchased and included in accounts payable                                   | \$ -                              | \$ 5          |
| Equipment purchased and payables settled with issuance of restricted common stock      | \$ -                              | \$ 186        |



See notes to unaudited condensed consolidated financial statements.

NEOGENOMICS, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

AS OF JUNE 30, 2010

NOTE A — NATURE OF BUSINESS AND BASIS OF FINANCIAL STATEMENT PRESENTATION

Nature of Business

NeoGenomics, Inc., a Nevada corporation (the “Parent”), and its subsidiary, NeoGenomics Laboratories, Inc., a Florida corporation (“NEO”, “NeoGenomics Laboratories” or the “Subsidiary”) (collectively referred to as “we”, “us”, “NeoGenomics”, or the “Company”), operates as a certified “high complexity” clinical laboratory in accordance with the federal government’s Clinical Laboratory Improvement Amendments of 1988 (“CLIA”), and is dedicated to the delivery of clinical diagnostic services to pathologists, oncologists, urologists, hospitals, and other laboratories throughout the United States.

Basis of Presentation

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

The accompanying condensed consolidated financial statements are unaudited and include all adjustments, in the opinion of management, which are necessary to make the financial statements not misleading. Except as otherwise disclosed, all such adjustments are of a normal recurring nature. Interim results are not necessarily indicative of results for a full year.

The interim condensed consolidated financial statements and notes are presented in accordance with the rules and regulations of the Securities and Exchange Commission and do not contain certain information included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2009. Therefore, the interim condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto contained in the Company’s annual report.

Use of Estimates

The preparation of condensed consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the condensed consolidated financial statements. The most significant estimates in the Company’s condensed consolidated financial statements relate to revenue recognition, allowance for doubtful accounts and stock-based compensation. Actual results could differ from those estimates.

Revenue Recognition

The Company recognizes revenues in accordance with the Securities and Exchange Commission’s (the “Commission”) Staff Accounting Bulletin Topic 13.A.1 (ASC 605-10-S99-1) No. 104, “Revenue Recognition”, when (a) the price is fixed or determinable, (b) persuasive evidence of an arrangement exists, (c) the service is performed and (d) collectability of the resulting receivable is reasonably assured.

The Company's specialized diagnostic services are performed based on a written test requisition form and revenues are recognized once the diagnostic services have been performed, the results have been delivered to the ordering physician, the payor has been identified and eligibility and insurance have been verified. These diagnostic services are billed to various payors, including Medicare, commercial insurance companies, other directly billed healthcare institutions such as hospitals and clinics, and individuals. The Company reports revenues from contracted payors, including Medicare, certain insurance companies and certain healthcare institutions, based on the contractual rate, or in the case of Medicare, published fee schedules. The Company reports revenues from non-contracted payors, including certain insurance companies and individuals, based on the amount expected to be collected. The difference between the amount billed and the amount expected to be collected from non-contracted payors is recorded as a contractual allowance to arrive at the reported revenues. The expected revenues from non-contracted payors are based on the historical collection experience of each payor or payor group, as appropriate. In each reporting period, the Company reviews its historical collection experience for non-contracted payors and adjusts its expected revenues for current and subsequent periods accordingly. As a result of the economic climate in the United States, we have used shorter and more current time horizons in analyzing historical experience.

#### Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable are reported at realizable value, net of an allowance for doubtful accounts, which is estimated and recorded in the same period the related revenue is recorded based on the historical collection experience for each type of payor. In addition, the allowance is adjusted periodically, based upon an evaluation of historical collection experience with specific payors, payor types, and other relevant factors, including regularly assessing the state of our billing operations in order to identify issues which may impact the collectability of receivables or allowance estimates. Revisions to the allowance are recorded as an adjustment to bad debt expense within general and administrative expenses. After appropriate collection efforts have been exhausted, specific receivables deemed to be uncollectible are charged against the allowance in the period they are deemed uncollectible. Recoveries of receivables previously written-off are recorded as credits to the allowance.

#### Stock-Based Compensation

The Company accounts for stock-based compensation in accordance with FASB ASC Topic 718 Compensation – Stock Compensation. ASC 718 requires recognizing compensation costs for all share-based payment awards made to employees and directors based upon the awards' grant-date fair value. The standard covers employee stock options, restricted stock, and other equity awards.

For stock options, the Company uses a trinomial lattice option-pricing model to estimate the grant-date fair value of stock option awards, and recognizes compensation cost on a straight-line basis over the awards' vesting periods. The Company estimates an expected forfeiture rate, which is factored into the determination of the Company's periodic expense.

#### Research and Development

Research and development costs are expensed as incurred. Research and development expenses consist of compensation and benefits for research and development personnel, license fees, related supplies, inventory and payment for samples to complete validation studies. These expenses were incurred to develop our melanoma test and to develop other new molecular tests.

#### Net Income (Loss) Per Common Share

We compute net income (loss) per share in accordance with FASB ASC Topic 260, Earnings per Share. Under the provisions of ASC 260, 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 income (loss) per share is computed by dividing the net income (loss) for the period by the weighted average number of common and common equivalent shares outstanding, using the treasury stock method, during the period. Equivalent shares consist of employee stock options and certain warrants issued to consultants and other providers of financing to the Company that are in-the-money based on the weighted average closing share price for the period. Under the treasury stock method, the number of in-the-money shares that are considered outstanding for this calculation is reduced by the number of common shares that theoretically could have been re-purchased by the Company with the aggregate exercise proceeds of such warrant and option exercises if such shares were re-purchased at the weighted average market price for the period.

There were no common equivalent shares included in the calculation of diluted earnings per share for the three and six month periods ended June 30, 2010 because the Company had a net loss for such periods and therefore such common equivalent shares were anti-dilutive. Common equivalent shares outstanding for the three and six months ended June 30, 2009 using the treasury stock method, includes approximately 3.4 and 3.0 million equivalent shares, respectively,

for unexercised warrants and approximately 2.0 million and 1.2 million shares, respectively, for unexercised stock options, and these were included in the earnings per share calculation.

#### NOTE B — REVOLVING CREDIT AND SECURITY AGREEMENT

On February 1, 2008, our subsidiary, NeoGenomics Laboratories, Inc., a Florida corporation (“Borrower”), entered into a Revolving Credit and Security Agreement (the “Credit Facility” or “Credit Agreement”) with CapitalSource, the terms of which provide for borrowings based on eligible accounts receivable up to a maximum borrowing of \$3.0 million, as defined in the Credit Agreement. Subject to the provisions of the Credit Agreement, CapitalSource shall make advances to us from time to time during the three year term, and the Credit Facility may be drawn, repaid and redrawn from time to time as permitted under the Credit Agreement.

To secure the payment and performance in full of the Obligations (as defined in the Credit Agreement), we granted CapitalSource a continuing security interest in and lien upon, all of our rights, title and interest in and to our Accounts (as defined in the Credit Agreement), which primarily consist of accounts receivable and cash balances held in lock box accounts. Furthermore, pursuant to the Credit Agreement, the Parent guaranteed the punctual payment when due, whether at stated maturity, by acceleration or otherwise, of all of the Obligations. The Parent guaranty is a continuing guarantee and shall remain in force and effect until the indefeasible cash payment in full of the Guaranteed Obligations (as defined in the Credit Agreement) and all other amounts payable under the Credit Agreement are made.

On April 26, 2010, the Parent Company, NeoGenomics Laboratories, Inc., the wholly-owned subsidiary of the Parent Company (“Borrower”), and CapitalSource entered into an Amended and Restated Revolving Credit and Security Agreement (the “Amended and Restated Credit Agreement”). The Amended and Restated Credit Agreement amended and restated the Revolving Credit and Security Agreement dated February 1, 2008, as amended, among the Parent Company, Borrower and CapitalSource (the “Original Credit Agreement”). The terms of the Amended and Restated Credit Agreement and the Original Credit Agreement are substantially similar except that the Amended and Restated Credit Agreement, among other things, (i) increases the maximum principal amount of the revolving credit facility from \$3,000,000 to \$5,000,000, (ii) provides that the term of the Amended and Restated Credit Agreement shall end on February 1, 2013, (iii) increases the amount of the collateral management fee and unused line fees paid by Borrower to CapitalSource, (iv) modifies the definitions of “Minimum Termination Fee” and “Permitted Indebtedness”, (v) provides that the Borrower must maintain a minimum outstanding principal balance under the revolving facility of at least \$2,000,000, (vi) decreases the interest rate to LIBOR plus 4.25% (provided that LIBOR shall not be less than 2.0%) and (vii) revises certain covenants and representations and warranties. The Amended and Restated Credit Agreement also made permanent a previously enacted temporary change to the methodology for calculating the Fixed Charge Coverage Ratio covenant, which permits us to add amounts of unrestricted cash and cash equivalents and unused availability under the Credit Facility to Adjusted EBITDA for the purposes of calculating this covenant. Borrower paid CapitalSource a commitment fee of \$33,500 in connection with the execution of the Amended and Restated Credit Agreement (CapitalSource credited \$25,000 of an amendment fee previously paid by the Borrower towards the commitment fee).

On June 30, 2010, we had an outstanding amount due on the Credit Facility of approximately \$2.96 million and the available credit under the Credit Facility was approximately \$627,000.

#### NOTE C — COMMON STOCK PURCHASE AGREEMENT

On November 5, 2008, we entered into a common stock purchase agreement (the “Stock Agreement”) with Fusion Capital Fund II, LLC, an Illinois limited liability company (“Fusion”). The Stock Agreement, which has a term of 30 months, provides for the future funding of up to \$8.0 million from sales of our common stock to Fusion on a when and if needed basis as determined by us in our sole discretion. In consideration for entering into this Stock Agreement, on October 10, 2008, we issued to Fusion 17,500 shares of our common stock (valued at \$14,700 on the date of issuance) and paid \$17,500 as a due diligence expense reimbursement. In addition, on November 5, 2008, we issued to Fusion 400,000 shares of our common stock (valued at \$288,000 on the date of issuance) as a commitment fee. Concurrently

with entering into the Stock Agreement, we entered into a registration rights agreement with Fusion. Under the registration rights agreement, we agreed to file a registration statement with the SEC covering the 417,500 shares that have already been issued to Fusion and at least 3.0 million shares that may be issued to Fusion under the Stock Agreement. Presently, we expect to sell no more than the initial 3.0 million shares to Fusion during the term of this Stock Agreement. The Company filed a registration statement on Form S-1 on November 28, 2008 and on February 5, 2009 the registration statement became effective and on May 7, 2010, we filed Post Effective Amendment No 2 to the registration statement which became effective on May 19, 2010.

Under the Stock Agreement we have the right to sell to Fusion shares of our common stock from time to time in amounts between \$50,000 and \$1.0 million, depending on the market price of our common stock. The purchase price of the shares related to any future funding under the Stock Agreement will be based on the prevailing market prices of our stock at the time of such sales without any fixed discount, and the Company will control the timing and amount of any sales of shares to Fusion. Fusion shall not have the right or the obligation to purchase any shares of our common stock on any business day that the price of our common stock is below \$0.45 per share. The Stock Agreement may be terminated by us at any time at our discretion without any cost to us. There are no negative covenants, restrictions on future funding from other sources, penalties, further fees or liquidated damages in the agreement.

Given our current liquidity position from cash on hand and our availability under our Credit Facility with CapitalSource, we have no immediate plans to issue common stock under the Stock Agreement. If and when we do elect to sell shares to Fusion under this agreement, we expect to do so opportunistically and only under conditions deemed favorable by the Company. Any proceeds received by the Company from sales under the Stock Agreement will be used for general corporate purposes, working capital, and/or for expansion activities.

#### NOTE D — CAPITAL LEASE TRANSACTIONS

##### SunTrust Lease Agreement

On October 28, 2009, we and SunTrust Equipment Finance & Leasing Corp. (“SunTrust”), entered into an equipment lease agreement (the “SunTrust Lease”). The SunTrust Lease established the general terms and conditions pursuant to which the Subsidiary could lease up to \$1.5 million in equipment and other property.

On April 13, 2010, the Company entered into Lease Schedule No. 3 of the SunTrust Lease for approximately \$249,000 which was funded to several vendors for lab equipment and computer hardware. Lease Schedule No. 3 has a term of 60 months with monthly payments of approximately \$4,900 and a \$1 final purchase payment at termination. Lease Schedule No. 3 is being accounted for as a capital lease.

On April 28, 2010 the lease agreement expired and we had only drawn \$967,000 against the facility. As a result of this on June 10, 2010 SunTrust amended the lease schedules to release \$500,000 of restricted cash to us.

#### NOTE E — RELATED PARTY TRANSACTIONS

##### Consulting Agreements

During the three and six months ended June 30, 2010, Steven C. Jones, a director of the Company, earned approximately \$53,000 and \$115,000, respectively, for various consulting work performed in connection with his duties as Executive Vice President of Finance. During the three and six months ended June 30, 2009, Mr. Jones earned approximately \$51,000 and \$107,000, respectively, for work performed as our Acting Principal Financial Officer.

On May 3, 2010, the Company entered into a consulting agreement (the “Consulting Agreement”) with Steven C. Jones (the “Consultant” or “Mr. Jones”) whereby Mr. Jones would provide consulting services to the Company in the capacity of Executive Vice President, Finance. The Consulting Agreement has an initial term from May 3, 2010 through April 30, 2013, which initial term automatically renews for additional one year periods unless either party provides notice of termination at least three months prior to the expiration of the initial term or any renewal term. In addition, the Company has the right to terminate the Consulting Agreement by giving written notice to the Consultant twelve months prior to the effective date of termination. The Consultant has the right to terminate the Consulting Agreement by giving written notice to the Company three months prior to the proposed termination date, provided, however, the Consultant is required to provide an additional three months of transition services to the Company upon reasonable request by the Company. Mr. Jones will receive annual base retainer compensation of \$180,000 per year. Mr. Jones is also eligible to receive an annual cash bonus based on the achievement of certain performance metrics with a target of 30% of his base retainer (the “Target Payout”). Based on the achievement of certain performance metrics, Mr. Jones may earn up to 150% of the Target Payout.

The Company also agreed that it would issue to the Consultant a warrant to purchase 450,000 shares of the Company’s common stock. The warrant has a) a seven year term, b) an exercise price of \$1.50 per share, c) the ability to do a cashless net exercise, and d) vesting as follows:



- i) 225,000 of such warrant shares vested immediately; and
- ii) 112,500 of such warrant shares vest according to the passage of time, with 4,687 warrant shares vesting on the last day of each calendar month for twenty-three (23) months, beginning with the month ended May 31, 2010 and continuing until the month ending March 31, 2012 and 4,699 warrant shares vest on April 30, 2012 so long as Consultant continues to provide services to the Company pursuant to this Agreement or any successor agreement.

iii) 112,500 of such warrant shares shall vest according to whether or not the Company meets certain financial targets as specified below for FY 2010 and FY 2011:

- 28,125 will vest if the Company's actual consolidated revenue for FY 2010, meets or exceeds the consolidated revenue goal established by the Board of Directors (the "Board") for the vesting of performance options and warrants; and

- 28,125 will vest if the Company's actual Adjusted EBITDA for FY 2010, meets or exceeds the consolidated Adjusted EBITDA goals established by the Board for the vesting of performance options and warrants; and

- 28,125 will vest if the Company's actual consolidated revenue for FY 2011, meets or exceeds the consolidated revenue goal established by the Board for the vesting of performance options and warrants; and

- 28,125 will vest if the Company's actual Adjusted EBITDA for FY 2011, meets or exceeds the consolidated Adjusted EBITDA goals established by the Board for the vesting of performance options and warrants; and

iv) The Consulting Agreement also provides that the vesting schedule of such warrant shall also specify that any unvested warrant shares shall vest upon the occurrence of a change of control.

These warrants were valued at \$191,000 using a trinomial lattice model with the following assumptions:

|                               |                |
|-------------------------------|----------------|
| Expected term in years        | 3.78           |
| Risk-free interest rate (%)   | 2%             |
| Expected volatility range (%) | 54.6% to 76.6% |
| Dividend yield (%)            | 0%             |

During the three and six months ended 234,374 warrants vested and the compensation expense was approximately \$77,000.

During the three and six months ended June 30, 2010, George O'Leary, a director of the Company, did not engage in any consulting with the Company. During the three and six month period ended June 30, 2009 Mr. O'Leary earned approximately \$16,000 and \$37,000 for various consulting work performed for the Company.

#### Laboratory Information System

On March 11, 2005, we entered into an agreement with HCSS, LLC and eTelenext, Inc. to enable NeoGenomics to use eTelenext, Inc's Accessioning Application, AP Anywhere Application and CMQ Application. HCSS, LLC is a holding company created to build a small laboratory network for the 50 small commercial genetics laboratories in the United States. HCSS, LLC was owned 66.7% by Dr. Michael T. Dent, a member of our Board of Directors. George O'Leary, a member of our Board of Directors was Chief Financial Officer of HCSS, LLC.

On June 18, 2009, we entered into a Software Development, License and Support Agreement with HCSS, LLC and eTelenext, Inc. to upgrade the Company's laboratory information system to APvX. The estimated costs for the development and migration phase are anticipated to be approximately \$150,000 and the system went live on July 29, 2010. This agreement has an initial term of five years from the date of acceptance and calls for monthly fees of \$8,000-\$12,000 during the term.

During 2010, eTelenext and HCSS were merged to form PathCenter, Inc. Dr. Michael T. Dent and Mr. George O'Leary have beneficial ownership of 12.2% and 4.6%, respectively of PathCenter, Inc.

For the three and six month periods ended June 30, 2010, eTelenext/PathCenter, Inc. earned approximately \$75,000 and \$181,000, respectively, for work performed on our laboratory information systems. For the three and six month periods ended June 30, 2009 Etelenext/HCSS earned approximately \$59,000 and \$159,000, respectively, for work performed on our laboratory information systems.

## Research DX, LLC

During 2009, we contracted with ResearchDX, L.L.C. (“ResearchDX”) to provide clinical trial management services on our behalf. For the three and six month periods ended June 30, 2010, we began to receive various specimens for testing from ResearchDX and we continued to outsource our clinical trial management and cytogenetic overflow volume to them for processing. During the three months ended June 30, 2010, we received specimen testing revenues from ResearchDX of approximately \$9,000 and incurred expenses to ResearchDX of approximately \$52,000. During the six months ended June 30, 2010, we received specimen testing revenues of approximately \$25,000 and incurred expenses to Research DX of approximately \$121,000. Research DX was formed in November 2008 and Dr. Mathew Moore our Vice President of Research owns 50% of ResearchDX. Dr. Moore has recused himself from all transactions between the two entities and we believe that such transactions are competitive with alternate options.

## NOTE F — SUBSEQUENT EVENTS

### Addition and Appointment of Executive Officers

Effective as of July 16, 2010, Marydawn Miller, was appointed to the position of Vice President of Information Technology of the Company.

Effective as of August 10, 2010, Grant Carlson, has been appointed to the position of Vice President of Business Development of the Company.

Also on August 10, 2010, Mark Smits, has been appointed to the position of Vice President of Sales and Marketing of the Company and his start date is August 30, 2010.

As part of his employment offer letter Mr. Smits salary was set at \$275,000. Beginning with the fiscal year ending December 31, 2010, Mr. Smits is also eligible to receive a base incentive bonus payment which will be targeted at 40% of his base salary based on 100% achievement of goals (the “Base Bonus Target”) agreed to by Mr. Smits and the CEO of NeoGenomics Laboratories and approved by the Board of Directors for such fiscal year and is eligible to be increased up to 150% of the Base Target Bonus in any fiscal year in which he meets certain outsize performance thresholds established by the CEO of the Company and approved by the board of directors. Mr. Smits targeted bonus for FY 2010 will be prorated for the amount of time served in 2010 and is guaranteed to be a minimum of \$25,000. Mr. Smits is also entitled to participate in all medical and other benefits that NeoGenomics Laboratories has established for its employees. Mr. Smits will also be eligible for up to four (4) weeks of paid time off per year. If Mr. Smits were terminated without cause during the term (as such term is used in the offer letter) he is eligible to receive his base pay and benefits for a period of six (6) months. Mr. Smits also will receive the option to purchase 425,000 shares of common stock. See the Company’s Current Report on Form 8-K filed on August 12, 2010 for additional information regarding this option. Mr. Smits was given the right to purchase up to \$100,000 of common stock directly from the Company during his first seven (7) days with the Company or at such other period as may be mutually agreed upon in writing. The share price will be determined by the average share price of the five trading days prior to the purchase. The company also agreed that if the purchase right was exercised that it would provide warrants (the “Warrant”) to purchase the Company’s common stock (the “Warrant Shares”) to Mr. Smits in an amount equal to the number of shares purchased. The exercise price of those warrants is to be set at 125% of the price per share of the common stock purchased. The warrants have a five (5) year term and vest based on the following:

- 20% of the Warrant Shares will be deemed vested as of the date of the Warrant;
- 20% of the Warrants Shares will be deemed to be vested on the first day on which the closing price per share of the Company’s common stock has reached or exceeded \$3.00 per share for 20 consecutive trading days;

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-20% of the Warrants Shares will be deemed to be vested on the first day on which the closing price per share of the Company's common stock has reached or exceeded \$4.00 per share for 20 consecutive trading days;

-20% of the Warrants Shares will be deemed to be vested on the first day on which the closing price per share of the Company's common stock has reached or exceeded \$5.00 per share for 20 consecutive trading days;

-20% of the Warrants Shares will be deemed to be vested on the first day on which the closing price per share of the Company's common stock has reached or exceeded \$6.00 per share for 20 consecutive trading days;

END OF FINANCIAL STATEMENTS.

## ITEM 2.MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

### Introduction

The following discussion and analysis should be read in conjunction with the unaudited condensed consolidated financial statements, and the notes thereto included herein. The information contained below includes statements of the Company’s or management’s beliefs, expectations, hopes, goals and plans that, if not historical, are forward-looking statements subject to certain risks and uncertainties that could cause actual results to differ materially from those anticipated in the forward-looking statements. For a discussion on forward-looking statements, see the information set forth in the introductory note to this Quarterly Report on Form 10-Q under the caption “Forward Looking Statements”, which information is incorporated herein by reference.

### Overview

NeoGenomics operates a network of cancer-focused testing laboratories whose mission is to improve patient care through exceptional cancer genetic diagnostic, prognostic and predictive testing services. Our vision is to become America’s premier cancer testing laboratory by delivering uncompromising quality, exceptional service and innovative products and solutions. The Company’s laboratory network currently offers the following types of testing services:

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

All of these testing services are widely utilized in the diagnosis, prognosis, and prediction for response to therapy of various types of cancers.

### Our Focus

NeoGenomics’ primary focus is to provide high complexity laboratory testing for community-based pathology, oncology, dermatology and urology markets in the United States and the Caribbean. We focus on community-based practitioners for two reasons: First, academic pathologists and associated clinicians tend to have their testing needs met within the confines of their university affiliation. Secondly, most of the cancer care in the United States is administered by community based practitioners due to ease of local access. We currently provide our services to pathologists and oncologists that perform bone marrow and/or peripheral blood sampling for the diagnosis of blood and lymphoid tumors (leukemias and lymphomas) and archival tissue referred for analysis of solid tumors such as

breast cancer. We also serve community-based urologists by providing a FISH-based genetic test for the diagnosis of bladder cancer and early detection of recurrent disease.

The high complexity cancer testing services we offer to community-based pathologists are designed to be a natural extension of and complementary to the services that our pathologist clients perform within their own practices. Because fee-for-service pathologists derive a significant portion of their annual revenue from the interpretation of cancer biopsy specimens, they represent an important market segment to us. We believe our relationship as a non-competitive partner to the community-based pathologist empowers these pathologists to expand their testing breadth and provide a menu of services that matches or exceeds the level of service found in academic centers of excellence around the country.

We also believe that we can provide a competitive choice to those larger oncology practices that prefer to have a direct relationship with a laboratory for cancer genetic testing services. Our regionalized approach allows us strong interactions with clients and our innovative Genetic Pathology Solutions (“GPS”) report summarizes all relevant case data on one summary report.

#### New FISH Test for Melanoma

In February 2010 we launched the first of the three tests developed pursuant to our 2009 Strategic Supply Agreement with Abbott under the trade name MelanoSITE™. MelanoSITE™ is a four probe FISH test that can be used as a diagnostic aid to traditional histopathologic evaluation in diagnosing melanoma. In conjunction with histopathology, the MelanoSITE™ test can help improve classification of melanocytic neoplasms with conflicting morphologic criteria and help ensure proper follow-up. Differential diagnosis of moderate to severely atypical nevi versus true melanoma is one of the most challenging areas in dermatopathology. While most melanomas can be readily distinguished from nevi on histopathologic examination, we estimate there are about 5% of cases that are ambiguous and show conflicting morphologic criteria. Diagnostic ambiguity has significant adverse consequences for patients and the healthcare system at large. Failure to recognize melanoma is potentially fatal, but labeling a benign lesion as malignant can lead to unwarranted wide re-excisions, sentinel lymph node biopsies, adjuvant toxic therapeutic interventions and the emotional strain of facing a diagnosis of cancer. Considering the large number of biopsies done in the U.S. to either confirm or rule out melanoma, diagnostic uncertainty of this scale represents a significant challenge to the U.S. healthcare system. We believe the MelanoSITE™ test will help address this diagnostic uncertainty and help to reduce the medical costs associated with melanoma by providing a more accurate diagnosis.

#### Seasonality

The majority of our testing volume is dependent on patients being treated by hematology/oncology professionals and other healthcare providers. Volume of testing generally declines during the vacation seasons, year-end holiday periods and other major holidays, particularly when those holidays fall during the middle of the week. In addition, volume of testing tends to decline due to adverse weather conditions, such as heavy snow, excessively hot or cold spells or hurricanes, tornados in certain regions, consequently reducing revenues and cash flows in any affected period. Therefore, comparison of the results of successive periods may not accurately reflect trends for future periods.

#### Critical Accounting Policies

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires us to make estimates and assumptions and select accounting policies that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

While many operational aspects of our business are subject to complex federal, state and local regulations, the accounting for our business is generally straightforward with net revenues primarily recognized upon completion of the testing process. Our revenues are primarily comprised of laboratory tests, and approximately one-half of total operating costs and expenses consist of employee compensation and benefits. Due to the nature of our business, several of our accounting policies involve significant estimates and judgments. These accounting policies have been described in our Annual Report on Form 10-K for the year ended December 31, 2009, and there have been no material changes in the three and six months ended June 30, 2010.





## Results of Operations for the Three and Six Months Ended June 30, 2010 as Compared to the Three and Six Months Ended June 30, 2009

The following table presents the unaudited condensed consolidated statements of operations as a percentage of revenue:

|   | For the three months ended June 30, |      | For the six months ended June 30, |      |
|---|-------------------------------------|------|-----------------------------------|------|
|   | 2010                                | 2009 | 2010                              | 2009 |
| NET REVENUE                               | 100%                                | 100% | 100%                              | 100% |
| COST OF REVENUE                           | 54%                                 | 45%  | 53%                               | 45%  |
| GROSS PROFIT                              | 46%                                 | 55%  | 47%                               | 55%  |
| OPERATING EXPENSES:                       |                                     |      |                                   |      |
| General and administrative                | 32%                                 | 30%  | 33%                               | 32%  |
| Sales and marketing                       | 23%                                 | 23%  | 22%                               | 21%  |
| TOTAL OPERATING EXPENSES                  | 55%                                 | 53%  | 55%                               | 53%  |
| INCOME (LOSS) FROM OPERATIONS             | (9)%                                | 2%   | (8)%                              | 2%   |
| INTEREST AND OTHER INCOME (EXPENSE) - NET | (2)%                                | (2)% | (2)%                              | (2)% |
| NET INCOME (LOSS)                         | (11)%                               | 0%   | (10)%                             | 0%   |

## Revenue

The Company's specialized testing services are performed based on a written test requisition form and revenues are recognized once the testing services have been performed, the results have been delivered to the ordering physician, the payor has been identified and eligibility and insurance have been verified. Our testing services are billed to various payors, including Medicare, commercial insurance companies, other directly billed healthcare institutions such as hospitals and clinics, and individuals. We report revenues from contracted payors, including Medicare, certain insurance companies and certain healthcare institutions, based on the contractual rate, or in the case of Medicare, published fee schedules. We report revenues from non-contracted payors, including certain insurance companies and individuals, based on the amount expected to be collected. The difference between the amount billed and the amount expected to be collected from non-contracted payors is recorded as a contractual allowance to arrive at the reported revenues. The expected revenues from non-contracted payors are based on the historical collection experience of each payor or payor group, as appropriate. In each reporting period, we review our historical collection experience for non-contracted payors and adjust our expected revenues for current and subsequent periods accordingly.

Revenues increased approximately 14%, or \$1.0 million, to \$8.5 million for the three months ended June 30, 2010 as compared to \$7.5 million for the three months ended June 30, 2009. The revenue increase for the three months ended June 30, 2010, as compared to the comparable period in 2009, was primarily driven by increases in the number of tests performed partially offset by a decline in average revenue per test.

Test volume increased approximately 28% for the three months ended June 30, 2010 as compared to the three months ended June 30, 2009. Increases in test volumes were primarily driven by the substantial increases in sales and marketing activities by the Company over the past twelve months.

Revenues increased approximately 18%, or \$2.5 million, to \$16.9 million for the six months ended June 30, 2010 as compared to \$14.4 million for the six months ended June 30, 2009. The revenue increase for the six months ended June 30, 2010, as compared to the comparable period in 2009, was primarily driven by increases in the number of tests performed partially offset by a decline in average revenue per test.

Test volume increased approximately 31% for the six months ended June 30, 2010 as compared to the six months ended June 30, 2009. Increases in test volumes were primarily driven by the substantial increases in sales and marketing activities by the Company over the past twelve months.

Revenues per test are a function of both the type of the test (e.g. FISH, cytogenetics, flow cytometry, etc.) and the payer (e.g., Medicare, Medicaid, third party insurer, institutional client etc.). Average revenue per test is primarily driven by our test type mix and our payer mix. The decrease in average revenue per test for the three and six months ended June 30, 2010 is primarily the result of decreases in our managed care reimbursements and to a lesser extent from lower priced tests in our test type mix.

We have established a reserve for uncollectible amounts based on estimates of what we will collect from: a) third-party payers with whom we do not have a contractual arrangement or sufficient experience to accurately estimate the amount of reimbursement we will receive, b) payments directly from patients, and c) those procedures that are not covered by insurance or other third party payers. The Company's allowance for doubtful accounts increased 58%, or approximately \$344,000, to \$933,000, as compared to \$589,000 at December 31, 2009. The allowance for doubtful accounts was approximately 15% of accounts receivable on June 30, 2010 and 11% on December 31, 2009.

#### Cost of Revenue

Cost of revenue includes payroll and payroll related costs for performing tests, depreciation of laboratory equipment, rent for laboratory facilities, laboratory reagents, probes and supplies, and delivery and courier costs relating to the transportation of specimens to be tested.

Cost of revenue increased approximately 35%, or \$1.2 million, to \$4.6 million for the three months ended June 30, 2010 as compared to \$3.4 million for the three months ended June 30, 2009. The increase was primarily attributable to increases in all areas of costs of revenue as the Company scaled its operations in order to meet increasing demand. Cost of revenue as a percentage of revenue was approximately 54% for the three months ended June 30, 2010 as compared to 45% for the three months ended June 30, 2009.

Accordingly, gross margin was approximately 46% for the three months ended June 30, 2010 as compared to 55% for the three months ended June 30, 2009. This decline in gross margin is primarily the result of our largest customer at March 31, 2009 bringing in-house certain high margin tests in the second quarter of 2009 and replacing a portion of that volume with additional low margin testing. This customer represented 4% of total revenue for the three months ended June 30, 2010 compared to 12% for the comparable period in 2009.

Cost of revenue increased approximately 38%, or \$2.4 million, to \$8.9 million for the six months ended June 30, 2010 as compared to \$6.5 million for the six months ended June 30, 2009. The increase was primarily attributable to increases in all areas of costs of revenue as the Company scaled its operations in order to meet increasing demand. Cost of revenue as a percentage of revenue was approximately 53% for the six months ended June 30, 2010 as compared to 45% for the six months ended June 30, 2009.

Accordingly, gross margin was approximately 47% for the six months ended June 30, 2010 as compared to 55% for the six months ended June 30, 2009. This decline in gross margin is primarily the result of our largest customer at March 31, 2009 bringing in-house certain high margin tests in the second quarter of 2009 and replacing a portion of that volume with additional low margin testing. This customer represented 5% of total revenue for the six months ended June 30, 2010 compared to 15% for the comparable period in 2009.

#### Sales and Marketing

Sales and marketing expenses relate primarily to the employee related costs of our sales management, sales representatives, sales and marketing consultants, marketing, and customer service personnel.

For the three months ended

For the six months ended

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|                     | June 30.     |              |             | June 30,     |              |             |
|---------------------|--------------|--------------|-------------|--------------|--------------|-------------|
|                     | 2010         | 2009         | %<br>Change | 2010         | 2009         | %<br>Change |
| Sales and marketing | \$ 1,943,000 | \$ 1,722,000 | 13%         | \$ 3,706,000 | \$ 3,056,000 | 21%         |
| As a % of revenue   | 23%          | 23%          |             | 22%          | 21%          |             |

The increase in sales and marketing expenses for the three months ended June 30, 2010 as compared to the same period in 2009 is driven primarily by an increase in the number of sales representatives and sales recruiting expenses.

The increase in sales and marketing expenses for the six months ended June 30, 2010 as compared to the same period in 2009 is primarily a result of adding substantial numbers of sales and marketing personnel in 2009 to generate additional revenue growth and to a lesser extent due to increased sales consulting expenses related to the melanoma launch and development.

We expect our sales and marketing expenses to stabilize in the near future. We expect these expenses to decline as a percentage of revenue as our case volumes increase and we develop more economies of scale in our sales and marketing activities.

#### General and Administrative Expenses

General and administrative expenses relate to billing, bad debts, finance, human resources, information technology, and other administrative functions. They primarily consist of employee related costs (such as salaries, fringe benefits, and stock-based compensation expense), professional services, facilities expense, and depreciation and administrative-related costs allocated to general and administrative expenses. In addition, the provision for doubtful accounts is included in general and administrative expenses.

|                            | For the three months ended<br>June 30. |              |             | For the six months ended<br>June 30, |              |             |
|----------------------------|--|--------------|-------------|--------------------------------------|--------------|-------------|
|                            | 2010                                   | 2009         | %<br>Change | 2010                                 | 2009         | %<br>Change |
| General and administrative | \$ 2,769,000                           | \$ 2,215,000 | 25%         | \$ 5,671,000                         | \$ 4,555,000 | 18%         |
| As a % of revenue          | 32%                                    | 30%          |             | 33%                                  | 32%          |             |

The increase in general and administrative expenses for the three months ended June 30, 2010 as compared for the comparable period in 2009 is primarily a result of adding information technology management and to a lesser extent research and development costs of related to new test offerings and warrant compensation expense as a result of the 450,000 warrants issued to Steven C. Jones as part of his consulting agreement to serve as our Executive Vice President, Finance. See the discussion of such warrant under Item 1. Financial Statements, Note E.

Bad debt expense increased by approximately 46%, or \$199,000, to \$626,000 for the three months ended June 30, 2010 as compared to \$427,000 for the three months ended June 30, 2009. Bad debt expense as a percentage of revenue for the three months ended June 30, 2010 was 7.3% as compared to 5.7% for the three months ended June 30, 2009.

The increase in general and administrative expenses for the six months ended June 30, 2010 as compared for the comparable period in 2009 is primarily a result of adding additional senior level management and information technology personnel.

Bad debt expense increased by approximately 25%, or \$232,000, to \$1,166,000 for the six months ended June 30, 2010 as compared to \$934,000 for the six months ended June 30, 2009. Bad debt expense as a percentage of revenue for the six months ended June 30, 2010 was 6.9% as compared to 6.5% for the six months ended June 30, 2009.

The increase in bad debt expense as a percentage of revenue is the result of managed care organizations becoming more aggressive in limiting payments to out-of-network providers. We negotiated and signed managed care contracts with two of the largest insurance companies in the United States in the last ninety days and we expect that these should help to reduce our bad debt expense going forward.

We expect our general and administrative expenses to increase modestly as we increase our billing and collections activities; incur additional expenses associated with the expansion of our facilities and backup systems; and continue

to build our physical infrastructure to support our anticipated growth. However, we expect general and administrative expenses to decline as a percentage of our revenue as our case volumes increase and we develop more operating leverage in our business.

#### Interest Expense, net and Other Expense

Interest expense net, represents the interest expense we incur on our borrowing arrangements offset by the interest income we earn on cash deposits. Interest expense, net increased approximately 35%, or \$45,000, to \$175,000 for the three months ended June 30, 2010 as compared to \$130,000 for the three months ended June 30, 2009. Interest expense, net increased approximately 36%, or \$89,000, to \$334,000 for the six months ended June 30, 2010 as compared to \$245,000 for the three months ended June 30, 2009. Interest expense is primarily related to the amount of our capital leases outstanding and to a lesser extent to the borrowing under our credit facility with CapitalSource. Interest expense increased over the same period in the prior year primarily as a result of the higher capital lease and working capital facility balances. Other expense for the three and six months ended June 30, 2010 was approximately \$6,000 and represents minimum state income taxes.

## Net Income (Loss)

As a result of the foregoing, we reported a net loss of \$978,000, or \$(0.03)/share, for the three months ended June 30, 2010 as compared to a net income of \$8,000, or \$0.00/share, for the three months ended June 30, 2009. We reported a net loss of \$1,728,000, or \$(0.05) per share, for the six months ended June 30, 2010 as compared to a net income of \$41,000, or \$0.00 per share, for the six months ended June 30, 2009.

## Liquidity and Capital Resources

The following table presents a summary of our cash flows provided by (used in) operating, investing and finance activities for the six months ended June 30, 2010 and 2009 as well as the period ending cash and cash equivalents and working capital.

|  | For the six months ended<br>June 30, |              |
|--|--------------------------------------|--------------|
|  | 2010                                 | 2009         |
| Net cash provided by (used in):                |                                      |              |
| Operating activities                           | \$ (1,488,000)                       | \$ (533,000) |
| Investing activities                           | (500,000)                            | (139,000)    |
| Financing activities                           | 2,534,000                            | 902,000      |
| Net increase in cash and cash equivalents      | 546,000                              | 230,000      |
| Cash and cash equivalents, beginning of period | 1,631,000                            | 468,000      |
| Cash and cash equivalents, end of period (1)   | \$ 2,177,000                         | \$ 698,000   |
| Working Capital (2), end of period             | \$ 690,000                           | \$ 600,000   |

(1) This excludes restricted cash of \$500,000

(2) Defined as current assets - current liabilities.

The large increase in cash used in operations for the six months ended June 30, 2010 as compared to the comparable period in 2009 is primarily the result of the loss from operations, and increases in our accounts receivable from increased revenues.

The increase in cash used in investing activities relates to paying more cash for capital expenditures than in the prior year.

The increase in net cash flow provided by financing activities was primarily the result of increases in funding on our Capital Source working capital facility related to the increase in accounts receivable as well as our operating losses. This funding was partially offset by payments on our capital lease facilities.

On November 5, 2008, we entered into a common stock purchase agreement (the "Stock Agreement") with Fusion Capital Fund II, LLC, an Illinois limited liability company ("Fusion"). The Stock Agreement, which has a term of 30 months, provides for the future funding of up to \$8.0 million available from sales of our common stock to Fusion on a when and if needed basis as determined by us in our sole discretion, depending on, among other things, the market price of our common stock. As of June 30, 2010, we had not drawn on any amounts under the Fusion Stock Agreement.

On February 1, 2008, we entered into a revolving credit facility with CapitalSource, which allows us to borrow up to \$3,000,000 based on a formula which is tied to our eligible accounts receivable that are aged less than 150 days.



On April 26, 2010, the Parent Company, NeoGenomics Laboratories, Inc., the wholly-owned subsidiary of the Parent Company (“Borrower”), and CapitalSource entered into an Amended and Restated Revolving Credit and Security Agreement (the “Amended and Restated Credit Agreement”). The Amended and Restated Credit Agreement amended and restated the Revolving Credit and Security Agreement dated February 1, 2008, as amended, among the Parent Company, Borrower and CapitalSource (the “Original Credit Agreement”). The terms of the Amended and Restated Credit Agreement and the Original Credit Agreement are substantially similar except that the Amended and Restated Credit Agreement, among other things, (i) increases the maximum principal amount of the revolving credit facility from \$3,000,000 to \$5,000,000, (ii) provides that the term of the Amended and Restated Credit Agreement shall end on February 1, 2013, (iii) increases the amount of the collateral management fee and unused line fees paid by Borrower to CapitalSource, (iv) modifies the definitions of “Minimum Termination Fee” and “Permitted Indebtedness”, (v) provides that the Borrower must maintain a minimum outstanding principal balance under the revolving facility of at least \$2,000,000, (vi) increases the interest rate to LIBOR plus 4.25% (provided that LIBOR shall not be less than 2.0%) and (vii) revises certain covenants and representations and warranties. The Amended and Restated Credit Agreement also made permanent a previously enacted temporary change to the methodology for calculating the Fixed Charge Coverage Ratio covenant, which permits us to add amounts of unrestricted cash and cash equivalents and unused availability under the Credit Facility to Adjusted EBITDA for the purposes of calculating this covenant. Borrower paid CapitalSource a commitment fee of \$33,500 in connection with the execution of the Amended and Restated Credit Agreement (CapitalSource credited \$25,000 of an amendment fee previously paid by the Borrower towards the commitment fee).

On June 30, 2010, we had an outstanding amount due on the Credit Facility of approximately \$2.96 million.

As of June 30, 2010, we had approximately \$2,177,000 in unrestricted cash on hand, \$627,000 of availability under our credit facility, and up to \$8.0 million available under the Fusion Stock Agreement. As such, we believe we have adequate resources to meet our operating commitments for the next twelve months, and accordingly 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.

#### Capital Expenditures

We currently forecast capital expenditures 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 \$3.0 million to \$4.0 million of additional capital equipment during the next twelve months. We plan to fund these expenditures with cash, through bank loan facilities, and through capital lease financing arrangements. If we are unable to obtain such funding, we will need to pay cash for these items or we will be required to curtail our equipment purchases, which may have an impact on our ability to continue to grow our revenues. We are currently engaged in due diligence with respect to two leasing facilities which would provide financing for a large portion of these expenditures.

#### Subsequent Events

##### Addition and Appointment of Executive Officers

Effective as of July 16, 2010, Marydawn Miller, was appointed to the position of Vice President of Information Technology of the Company.

Effective as of August 10, 2010, Grant Carlson, has been appointed to the position of Vice President of Business Development of the Company.

Also on August 10, 2010, Mark Smits, has been appointed to the position of Vice President of Sales and Marketing of the Company and his start date is August 30, 2010.

As part of his employment offer letter Mr. Smits salary was set at \$275,000. Beginning with the fiscal year ending December 31, 2010, Mr. Smits is also eligible to receive a base incentive bonus payment which will be targeted at 40% of his base salary based on 100% achievement of goals (the "Base Bonus Target") agreed to by Mr. Smits and the CEO of NeoGenomics Laboratories and approved by the Board of Directors for such fiscal year and is eligible to be increased up to 150% of the Base Target Bonus in any fiscal year in which he meets certain outsize performance thresholds established by the CEO of the Company and approved by the board of directors. Mr. Smits targeted bonus for FY 2010 will be prorated for the amount of time served in 2010 and is guaranteed to be a minimum of \$25,000. Mr. Smits is also entitled to participate in all medical and other benefits that NeoGenomics Laboratories has established for its employees. Mr. Smits will also be eligible for up to four (4) weeks of paid time off per year. If Mr. Smits were terminated without cause during the term (as such term is used in the offer letter) he is eligible to receive his base pay and benefits for a period of six (6) months. Mr. Smits also will receive the option to purchase 425,000 shares of common stock. See the Company's Current Report on Form 8-K filed on August 12, 2010 for additional information regarding this option. Mr. Smits was given the right to purchase up to \$100,000 of common stock directly from the Company during his first seven (7) days with the Company or at such other period as may be mutually agreed upon in writing. The share price will be determined by the average share price of the five trading days prior to the purchase. The company also agreed that if the purchase right was exercised that it would provide warrants

(the “Warrant”) to purchase the Company’s common stock (the “Warrant Shares”) to Mr. Smits in an amount equal to the number of shares purchased. The exercise price of those warrants is to be set at 125% of the price per share of the common stock purchased. The warrants have a five (5) year term and vest based on the following:

- 20% of the Warrant Shares will be deemed vested as of the date of the Warrant;
- 20% of the Warrants Shares will be deemed to be vested on the first day on which the closing price per share of the Company’s common stock has reached or exceeded \$3.00 per share for 20 consecutive trading days;
- 20% of the Warrants Shares will be deemed to be vested on the first day on which the closing price per share of the Company’s common stock has reached or exceeded \$4.00 per share for 20 consecutive trading days;
- 20% of the Warrants Shares will be deemed to be vested on the first day on which the closing price per share of the Company’s common stock has reached or exceeded \$5.00 per share for 20 consecutive trading days;
- 20% of the Warrants Shares will be deemed to be vested on the first day on which the closing price per share of the Company’s common stock has reached or exceeded \$6.00 per share for 20 consecutive trading days;

### ITEM 3 — Quantitative and Qualitative Disclosures About Market Risk

We are a smaller reporting company as defined by Rule 12b-2 of the Securities Exchange Act of 1934 and are not required to provide information under this item.

### ITEM 4 — Controls and Procedures

#### Disclosure 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 time periods specified in the SEC’s rules and forms, and that such information is accumulated and communicated to our management, including our principal executive officer, principal financial officer, and principal accounting officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating our disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives.

As required by SEC Rule 15d-15(e), our management carried out an evaluation, under the supervision and with the participation of our principal executive officer, principal financial officer, and principal accounting officer, of the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, our principal executive officer, principal financial officer, and principal accounting officer concluded that our disclosure controls and procedures were effective at a reasonable assurance level as of the end of the period covered by this report.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during the three months ended June 30, 2010 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 4T — Controls and Procedures

Not applicable.

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PART II — OTHER INFORMATION

ITEM 1 — LEGAL PROCEEDINGS

On November 9, 2009, the Company was notified by the Civil Division of the U.S. Department of Justice (“DOJ”) that a “Qui Tam” Complaint (“Complaint”) had been filed under seal by a private individual against a number of health care companies, including the Company. The Complaint is an action to recover damages and civil penalties arising from alleged false or fraudulent claims and statements submitted or caused to be submitted by the defendants to Medicare. The DOJ has not made any decision whether to join the action. The Company believes the allegations in the Complaint are without merit and intends to vigorously defend itself if required to do so.

ITEM 1A — RISK FACTORS

We are a smaller reporting company as defined by Rule 12b-2 of the Exchange Act and are not required to provide information under this item.

ITEM 2 — UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

On May 3, 2010, a warrant to purchase 450,000 shares of the Company’s common stock was issued to Steven C. Jones. Exemption from registration was based on Section 4(2) of the Securities Act. See the discussion of such warrant under Item 1. Financial Statements, Note E.

ITEM 3 — DEFAULTS UPON SENIOR SECURITIES

Not Applicable

ITEM 4 — REMOVED AND RESERVED

None

ITEM 5 — OTHER INFORMATION

Not applicable.

## ITEM 6 — EXHIBITS

## EXHIBIT

| NO.    | DESCRIPTION   |
|--------|---|
| 10.24† | Revolving Credit and Security Agreement, dated February 1, 2008, by and between NeoGenomics, Inc., a Nevada corporation, NeoGenomics, Inc., a Florida corporation, and CapitalSource Finance LLC                    |
| 10.25  | Employment Agreement, dated March 12, 2008, between Neogenomics, Inc. and Mr. Robert P. Gasparini   |
| 10.26  | Employment Agreement, dated June 24, 2008, between Neogenomics, Inc. and Mr. Jerome Dvonch  |
| 10.27  | Common Stock Purchase Agreement, dated November 5, 2008, between Neogenomics, Inc., a Nevada corporation, and Fusion Capital Fund II, LLC   |
| 10.32  | Employment Agreement, dated March 16, 2009 between Mr. Douglas M. VanOort and NeoGenomics, Inc.   |
| 10.35† | Second Amendment to Revolving Credit and Security Agreement, dated April 14, 2009, among NeoGenomics Laboratories, Inc., NeoGenomics, Inc., and CapitalSource Finance LLC   |
| 10.36  | Common Stock Purchase Agreement, dated July 24, 2009, between Neogenomics, Inc. and Abbott Laboratories   |
| 10.38  | Employment Letter dated July 22, 2009 between NeoGenomics, Inc. and Grant Carlson   |
| 10.39† | Strategic Supply Agreement dated July 24, 2009, between NeoGenomics Laboratories, Inc. and Abbott Molecular Inc.  |
| 10.41  | Employment Letter dated November 3, 2009 between NeoGenomics Laboratories, Inc. and George Cardoza  |
| 10.42  | Employment Letter dated November 3, 2009 between NeoGenomics Laboratories, Inc. and Jack G. Spitz   |
| 10.44† | Amended and Restated Revolving Credit and Security Agreement dated April 26, 2010 between NeoGenomics Laboratories, Inc., NeoGenomics, Inc., and CapitalSource Finance LLC  |
| 10.45  | Consulting Agreement dated May 3, 2010 between NeoGenomics, Inc. and Steven C. Jones. (Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2010)      |
| 10.46  | Warrant Agreement dated May 3, 2010 between NeoGenomics, Inc. and Steven C. Jones. (Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2010)         |
| 10.47  | Offer Letter between NeoGenomics Laboratories, Inc. and Marydawn Miller dated June 16, 2010   |
| 10.48  | Offer Letter between NeoGenomics Laboratories, Inc. and Mark Smits dated July 26, 2010 (Incorporated by reference to the Company's Current Report on Form 8-K filed with the SEC on August 12, 2010)                |
| 31.1   | Certification by Principal Executive Officer pursuant to Rule 13a-14(a)/ 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002  |
| 31.2   | Certification by Principal Financial Officer pursuant to Rule 13a-14(a)/ 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002  |
| 31.3   | Certification by Principal Accounting Officer pursuant to Rule 13a-14(a)/ 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002   |
| 32.1   | Certification by Principal Executive Officer, Principal Financial Officer and Principal Accounting Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |

†

Portions of the exhibit have been omitted pursuant to a request for confidential treatment. The omitted information has been filed separately with the Securities and Exchange Commission.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: August 16, 2010

NEOGENOMICS, INC.

By: /s/ Douglas M. VanOort  
Name: Douglas M. VanOort  
Title: Chairman and  
Chief Executive Officer

By: /s/ George Cardoza  
Name: George Cardoza  
Title: Chief Financial Officer

By: /s/ Jerome J. Dvonch  
Name: Jerome J. Dvonch  
Title: Director of Finance and  
Principal Accounting Officer