NEOGENOMICS INC
Form 10-Q
August 14, 2008

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2008.

OR

o 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	**74-2897368**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

12701 Commonwealth Drive, Suite 9,
Fort Myers, FL 33913
(239)-768-0600
(Address, including zip code, and area code and telephone number of Registrant's principal executive offices)

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 x No o

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. (Check one):

Large accelerated filer o	Accelerated filer o
Non-accelerated filer o	Smaller reporting company x

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

As of August 12, 2008, the registrant had 31,453,566 shares of Common Stock, par value $0.001 per share outstanding

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FINANCIAL INFORMATION

FORWARD-LOOKING STATEMENTS

This 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” in this Form 10-Q), which represent the Company’s current expectations or beliefs including, but not limited to, statements concerning the Company’s operations, performance, financial condition and growth. For this purpose, any statements contained in this Form 10-Q that are not statements of historical fact are forward-looking statements. Without limiting the generality of the foregoing, words such as “may”, “anticipation”, “intend”, “could”, “estimate”, or “contin or the negative or other comparable terminology are intended to identify forward-looking statements. These statements by their nature involve substantial risks and uncertainties, such as credit losses, dependence on management and key personnel, variability of quarterly results, 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
(unaudited)

	June 30, 2008	December 31, 2007
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 442,187	$ 210,573
Accounts receivable (net of allowance for doubtful accounts of $390,638 and $414,548, respectively)	3,641,822	3,236,751
Inventories	364,259	304,750
Other current assets	746,209	400,168
Total current assets	5,194,477	4,152,242
PROPERTY AND EQUIPMENT (net of accumulated depreciation of $1,185,750 and $862,030,respectively)	2,215,613	2,108,083
OTHER ASSETS	255,566	260,575
TOTAL ASSETS	$ 7,665,656	$ 6,520,900
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	$ 1,902,813	$ 1,799,159
Accrued expenses and other liabilities	1,203,374	1,319,580
Revolving credit line	1,053,471	-
Short-term portion of equipment capital leases	320,682	242,966
Total current liabilities	4,480,340	3,361,705
LONG TERM LIABILITIES		
Long-term portion of equipment capital leases	854,293	837,081
TOTAL LIABILITIES	5,334,633	4,198,786
STOCKHOLDERS' EQUITY		
Common stock, $.001 par value, (100,000,000 shares authorized; 31,368,256 and 31,391,660 shares issued and outstanding, respectively)	31,368	31,391
Additional paid-in capital	17,022,971	16,820,954
Accumulated deficit	(14,723,316)	(14,530,231)
Total stockholders' equity	2,331,023	2,322,114
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 7,665,656	$ 6,520,900

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

NEOGENOMICS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited)

	For the Three-Months Ended June 30, 2008	For the Three-Months Ended June 30, 2007	For the Six-Months Ended June 30, 2008	For the Six-Months Ended June 30, 2007
NET REVENUE	$ 4,881,402	$ 2,344,032	$ 9,044,164	$ 4,586,694
COST OF REVENUE	2,183,758	1,165,813	4,042,231	2,102,546
GROSS PROFIT	2,697,644	1,178,219	5,001,933	2,484,148
OPERATING EXPENSES				
General and administrative	2,556,121	2,059,166	5,070,676	3,485,713
Interest expense, net	69,246	92,556	124,342	191,480
Total operating expenses	2,625,367	2,151,722	5,195,018	3,677,193
NET INCOME (LOSS)	$ 72,277	$ (973,503)	$ (193,085)	$ (1,193,045)
NET INCOME (LOSS) PER SHARE				
- Basic	$ 0.00	$ (0.03)	$ (0.01)	$ (0.04)
- Diluted	$ 0.00	$ (0.03)	$ (0.01)	$ (0.04)
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING				
- Basic	31,367,144	28,941,466	31,383,824	28,160,643
- Diluted	38,243,857	28,941,466	31,383,824	28,160,643

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

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NEOGENOMICS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30, 2008 AND 2007
(unaudited)

	June 30, 2008	June 30, 2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Loss	$ (193,085)	$ (1,193,045)
Adjustments to reconcile net loss to net cash used in operating activities:		
Provision for bad debts	815,011	278,000
Depreciation	323,720	180,455
Impairment of assets	-	2,235
Amortization of debt issue costs	22,076	15,615
Amortization of credit facility warrants	-	39,285
Stock based compensation	124,539	140,240
Non cash consulting expenses	67,042	84,608
Changes in assets and liabilities, net:		
(Increase) decrease in accounts receivable, net of write-offs	(1,220,083)	(1,000,147)
(Increase) decrease in inventories	(59,508)	(245,108)
(Increase) decrease in other current assets	(368,117)	(108,376)
(Increase) decrease in deposits	5,009	(17,286)
Increase (decrease) in accounts payable and other liabilities	(38,205)	255,703
NET CASH USED IN OPERATING ACTIVITIES	(521,601)	(1,567,821)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(170,764)	(221,264)
Purchase of convertible debenture	-	(200,000)
NET CASH USED IN INVESTING ACTIVITIES	(170,764)	(421,264)
CASH FLOWS FROM FINANCING ACTIVITIES		
Advances / (repayments) to affiliates, net	-	(1,675,000)
Advances / (repayments) on credit facility	1,053,471	-
Repayment of capital leases	(139,905)	(63,157)
Issuance of common stock and warrants for cash, net of transaction expenses	10,413	5,224,856
Repayment of notes payable	-	(2,000)
NET CASH PROVIDED BY FINANCING ACTIVITIES	923,979	3,484,699
NET INCREASE IN CASH AND CASH EQUIVALENTS	231,614	1,495,614
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	210,573	126,264
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 442,187	$ 1,621,878
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		

Interest paid	$	107,820	$	163,282
Income taxes paid	$	-	$	-
NON-CASH INVESTING AND FINANCING ACTIVITIES				
Equipment leased under capital leases, including $140,000 in accrued expenses at December 31, 2007	$	234,833	$	272,265
Equipment purchased and included in accounts payable at June 30, 2008	$	165,653	$	-

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

NEOGENOMICS, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
AS OF JUNE 30, 2008

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, Inc., a Florida corporation, doing business as NeoGenomics Laboratories ("NEO", "NeoGenomics" or the "Subsidiary") (collectively referred to as "we", "us", "our", 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 of the Company 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 2007 Annual Report on Form 10-KSB. 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.

Net Income (Loss) Per Common Share

We compute net income (loss) per share in accordance with Financial Accounting Standards Statement No. 128 "Earnings per Share" ("SFAS 128") and SEC Staff Accounting Bulletin No. 98 ("SAB 98"). Under the provisions of SFAS No. 128 and SAB 98, basic net income (loss) per share is computed by dividing the net income (loss) available to common stockholders by the weighted average number of common shares outstanding during the period. Diluted net 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 during the period. Equivalent shares consist of employee stock options and certain warrants issued to consultants and other providers of financing to the Company. Common equivalent shares outstanding as of June 30, 2008 includes approximately 4.3 million equivalent shares for unexercised warrants and approximately 2.6 million shares for unexercised stock options, and these were included in the earnings per share calculation for the three months ended June 30, 2008. There were no common equivalent shares included in the calculation of diluted earnings per share for the six month period ended June 30, 2008 and for the three and six month periods ended June 30, 2007, because they were anti-dilutive for those periods.

Recently Issued Accounting Pronouncements

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" ("SFAS 157"). SFAS 157 provides a new single authoritative definition of fair value and provides enhanced guidance for measuring the fair value of assets and liabilities and requires additional disclosures related to the extent to which companies measure assets and liabilities at fair value, the information used to measure fair value, and the effect of fair value measurements on earnings. SFAS 157 was effective for the Company as of January 1, 2008 for financial assets and financial liabilities within its scope and did not have a material impact on our consolidated financial statements.

In February 2008, the FASB issued FASB Staff Position No. FAS 157-2 "Effective Date of FASB Statement No. 157" ("FSP FAS 157-2") which defers the effective date of SFAS 157 for all non-financial assets and non-financial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually), to fiscal years beginning after November 15, 2008 and interim periods within those fiscal years for items within the scope of FSP FAS 157-2. The Company is currently assessing the impact, if any, of SFAS 157 and FSP FAS 157-2 for non-financial assets and non-financial liabilities on its consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159 "The Fair Value Option for Financial Assets and Financial Liabilities - Including an Amendment of FASB Statement No. 115." ("SFAS 159"). SFAS 159 permits an entity to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. The Company adopted this Statement as of January 1, 2008 and has elected not to apply the fair value option to any of its financial instruments.

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements - an amendment of ARB No. 51." ("SFAS 160"). SFAS 160 requires all entities to report noncontrolling (minority) interests in subsidiaries as equity in the consolidated financial statements. Its intention is to eliminate the diversity in practice regarding the accounting for transactions between an entity and noncontrolling interests. This Statement is effective for the Company as of January 1, 2009 and currently, we do not expect it to have an impact on the Company's financial statements.

In May 2008, the FASB issued SFAS No. 162 ("SFAS 162"), "The Hierarchy of Generally Accepted Accounting Principles" ("SFAS 162"). This statement identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with GAAP. While this statement formalizes the sources and hierarchy of GAAP within the authoritative accounting literature, it does not change the accounting principles that are already in place. This statement will be effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board amendments to AU Section 411, "The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles." SFAS 162 is not expected to have a material impact on the Company's financial statements.

NOTE B – DEBT OBLIGATION

Revolving Credit and Security Agreement

On February 1, 2008, our subsidiary, NeoGenomics, Inc., a Florida corporation ("Borrower"), entered into a Revolving Credit and Security Agreement (the "Credit Facility" or "Credit Agreement") with CapitalSource Finance LLC ("CapitalSource"), the terms of which provide for borrowings based on eligible accounts receivable up to a maximum borrowing of $3,000,000, 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 (3) year term, and the Credit Facility may be drawn, repaid and redrawn from time to time as permitted under the Credit Agreement.

Interest on outstanding advances under the Credit Facility are payable monthly in arrears on the first day of each calendar month at an annual rate based on the one-month LIBOR plus 3.25%, subject to a LIBOR floor of 3.14%. At June 30, 2008, the effective rate of interest was 6.39%.

To secure the payment and performance in full of the Obligations (as defined in the Credit