NEOGENOMICS INC
Form 10QSB
May 17, 2004

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

FORM 10-QSB

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

For the quarterly period ended March 31, 2004.

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

Commission File Number: 333-72097

NeoGenomics, Inc.
(Exact name of registrant as specified in charter)

Nevada	**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

(Address of principal executive offices)

(239) 768-0600

(Registrant's Telephone Number, Including Area Code)

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

YES (X) NO ( )

State the number of shares outstanding of each of the issuer's classes of common equity, as of May 14, 2004.

18,749,416

Transitional Small Business Disclosure Format:

YES ( ) NO (X)

NeoGenomics, Inc.

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PART I

FORWARD-LOOKING STATEMENTS

This Form 10-QSB, press releases and certain information provided periodically in writing or orally by our officers or our agents contain statements which constitute forward-looking statements within the meaning of Section 27A of the Securities Act, as amended; Section 21E of the Securities Exchange Act of 1934; and the Private Securities Litigation Reform Act of 1995. The words "may", "would", "could", "will", "expect", "estimate", "anticipate", "believe", "intend", "plan", "goal", and similar expressions and variations thereof are intended to specifically identify forward-looking statements. These statements appear in a number of places in this Form 10-QSB and include all statements that are not statements of historical fact regarding the intent,

belief or current expectations of us, our directors or our officers, with respect to, among other things: (i) our liquidity and capital resources; (ii) our financing opportunities and plans; (iii) trends affecting our future financial condition or results of operations; (iv) our growth strategy and operating strategy; and (v) the declaration and payment of dividends.

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

NeoGenomics, Inc.

CONSOLIDATED BALANCE SHEET AS OF
March 31, 2004
(unaudited)

ASSETS

CURRENT ASSETS:	
Cash	$ 55,132
Accounts receivable (net of allowance for doubtful accounts of $5,325)	68,073
Inventories	9,287
Other current assets	229
Total current assets	132,721
PROPERTY AND EQUIPMENT (net of accumulated depreciation of $100,934)	395,929
OTHER ASSETS - Deposits	2,221
TOTAL	$ 530,871

LIABILITIES AND STOCKHOLDERS' DEFICIT

CURRENT LIABILITIES:

Accounts payable	$ 76,882
Deferred revenue	110,000
Accrued and other liabilities	60,300
Due to affiliates	58,666
Total current liabilities	305,848
LONG TERM LIABILITIES-	
Due to affiliates	715,000
Total Liabilities	1,020,848
STOCKHOLDERS' DEFICIT:	
Common stock, $.001 par value, 100,000,000 shares authorized; 18,649,416 shares issued and outstanding	18,649
Additional paid-in capital	8,865,236
Deficit	(9,373,862)
Total stockholders' deficit	(489,977)
TOTAL	$ 530,871

See notes to consolidated financial statements.

NeoGenomics, Inc.

CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited)

	For the Three-Months Ended March 31, 2004	For the Three-Months Ended March 31, 2003
NET REVENUE	$ 178,863	$ 70,169
COST OF REVENUE	145,986	97,043
GROSS (DEFICIT) PROFIT	32,877	(26,874)
OPERATING EXPENSES:		
General and administrative	181,770	83,663
Interest expense	20,716	4,269
Total operating expenses	202,486	87,932
NET INCOME (LOSS)	$ (169,609)	$ (114,806)
NET INCOME (LOSS) PER SHARE -		
Basic and Diluted	$ (0.01)	$ (0.03)
WEIGHTED AVERAGE NUMBER		

OF SHARES OUTSTANDING –		
Basic and Diluted	18,449,416	4,482,354

See notes to consolidated financial statements.

NeoGenomics, Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

	For the Three-Months Ended March 31, 2004	For the Three-Months Ended March 31, 2003
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (169,609)	$ (114,806)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	15,194	11,864
Provision for bad debts	5,382	7,406
Non-cash expenses	–	11,504
Changes in assets and liabilities, net:		
(Increase) decrease in accounts receivables, net of write-offs	(9,594)	(40,846)
(Increase) decrease in inventories	1,306	(5,398)
(Increase) decrease in pre-paid expenses	1,375	–
(Increase) decrease in other current assets	1,023	2,000
(Increase) decrease in deposits	5,000	(3,400)
Increase (decrease) in due to bank	–	(13,518)
Increase (decrease) in accounts payable and other liabilities	21,007	16,708
NET CASH USED IN OPERATING ACTIVITIES	(128,916)	(121,686)
CASH FLOWS FROM INVESTING ACTIVITIES –		
Purchases of property and equipment	(13,437)	(8,573)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Advances from affiliates, net	125,000	132,000
Issuances of common stock, net of transaction expenses	47,434	–
NET CASH PROVIDED BY FINANCING ACTIVITIES	172,434	132,000
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	30,081	1,741
CASH, BEGINNING OF PERIOD	25,051	–
CASH, END OF PERIOD	$ 55,132	$ 1,741

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SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Interest paid	$ 6,987	$ -
	==========	==========
Income taxes paid	$ -	$ -
	==========	==========

See notes to consolidated financial statements.

NeoGenomics, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE A - ORGANIZATION AND DESCRIPTION OF BUSINESS

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

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

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

Basis of Presentation

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

the notes thereto should be read in conjunction with our audited consolidated financial statements as of and for the year ended December 31, 2003 contained in our Form 10-KSB.

Principles of Consolidation

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

Revenue Recognition

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

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

Accounts Receivable and Allowance for Doubtful Accounts

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

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires us to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. The reported amounts of revenues and expenses during the reporting period may be affected by the estimates and assumptions we are required to make. Estimates that are critical to the accompanying consolidated financial statements include estimates related to contractual adjustments, and the allowance for doubtful accounts. It is at least reasonably possible that our estimates could change in the near term with respect to these matters.

Reclassifications

Certain amounts in the 2003 financial statements have been reclassified to conform with the 2004 presentation.

NOTE B - GOING CONCERN

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

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

NOTE C - RELATED PARTY TRANSACTIONS

During 2003, we paid $72,500 to one of our Directors for various consulting work in connection with helping to organize and manage our financial affairs. During the three months ended March 31, 2004, we incurred $20,000 to this same Director for his continued services, and such amounts were included in accounts payable at March 31, 2004.

During 2002, we borrowed funds from the Naples Women's Center ("NWC"), a company owned by our Chairman, to meet our short-term cash needs. These amounts were advanced to us with a stated interest rate of 8% and are due in October of 2004. At March 31, 2004, we owed NWC approximately $58,700.

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

On April 15, 2003, we entered into debt and equity financing agreements with Medical Venture Partners and its principals. Under the terms of the agreements, affiliates of Medical Venture Partners purchased approximately 75% of our outstanding common stock and agreed to make available up to $1.5 million of debt financing in the form of a revolving credit facility (the "Credit Facility"), with a stated interest rate of prime + 8%. The debt financing and approximately 50.4% of the equity investment are being made through MVP 3, LP, a fund controlled by Medical Venture Partners. The remainder of the equity investment was made by the three principals of Medical Venture Partners acting individually.

Under the terms of the Credit Facility, we are able to borrow up to $500,000 on an unsecured basis, plus an amount not exceeding 80% of our "eligible" accounts receivable (as defined) and 50% of our net furniture and equipment balance. At March 31, 2004 we owed MVP 3, LP $715,000 under the Credit Facility and had approximately $38,500 of due, but unpaid interest in our accounts payable balance. Advances are secured by substantially all of the assets in the accompanying consolidated balance sheet; however such security interest is subordinate to the first security interest we granted to Fifth Third Bank, an unrelated financial institution that has entered into a separate loan agreement with MVP 3, LP and its principals. The Company is also a guarantor of certain parts of this indebtedness with Fifth Third Bank. The Credit Facility matures on March 31, 2005 and all amounts outstanding thereunder (including any unpaid interest) are due at that time.

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

NOTE D - FINANCING TRANSACTION

On March 31, 2004, we sold 200,000 shares of our common stock in a private placement at $0.25/share to an unaffiliated third party in the first in a series of equity transactions (see Note E - Subsequent Events). This transaction generated net proceeds to the Company of approximately $47,500 after deducting for certain transaction expenses. Under the terms of the stock purchase agreement used in this transaction, the Company has agreed to use its best efforts to register such shares with the SEC within six months of the date of the transaction.

NOTE E - SUBSEQUENT EVENTS

Between April 1 and May 14, 2004, we sold 100,000 shares of our common in stock in a private placement at $0.25/share to an unaffiliated third party who is a passive investor. This transaction generated gross proceeds to the Company of $25,000. Under the terms of the stock purchase agreement used in this transaction, the Company has agreed to use its best efforts to register such shares with the SEC within six months of the date of the transaction. In addition, we are in the process of closing equity transactions with a number of unaffiliated third parties under the same terms as listed above, which we expect will generate gross proceeds of an additional $425,000 by June 30, 2004.

On April 7, 2004, Dr. Michael T. Dent, our President and Chief Medical Officer notified the Company that he would not be renewing his employment agreement,

which expired April 15, 2004. Dr. Dent remains as our Chairman of the Board.

End of Financial Statements

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

Overview

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

1. Development of a clinical laboratory to offer routine cytogenetics and molecular biology testing services; and

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

The vision of NeoGenomics is to merge a high-end genetic and molecular testing laboratory with ongoing research activities to help bridge the gap between clinical medicine and genomic research. We believe that this combination will allow the Company to speed the process of discovery and innovation and develop new advanced testing methods to identify the genetic and molecular causes of disease. Over the last 2-3 years, advances in technology and genetic research, including the complete sequencing of the human genome, have made possible a whole new set of tools to diagnose and treat diseases. This has opened up a vast opportunity for laboratory companies that are positioned to address this growing market segment.

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

- clinical lab testing,
- anatomic pathology testing, and
- genetic/molecular testing.

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

We believe genetic/molecular testing is the newest and fastest growing subset of the laboratory market. Genetic testing or "cytogenetics" involves analyzing

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

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

Comparison of the Medical Testing Laboratory Market Segments:

Attributes	**Clinical**	**Anatomic Pathology**	**Ge**
Testing Performed On	Blood, Urine	Tissue/cells	
Volume	High	Low	
Physician Involvement	Low	High - Pathologist	
Malpractice Insur. Required	Low	High	
Other Professionals Req.	None	None	Cy
Other Professionals Req.			Mole
Level of Automation	High	None	
Diagnostic in Nature	Usually Not	Yes	
Types of Diseases Tested	Many Possible	Primarily Cancer	R
Estimated Revenue/Test (1)	$5 - $35/Test	$25 - $100/Test	$2
Estimated Size of Market	$25 - $30 Billion	$6.0 - $7.0 Billion	$1.
Estimated Annual Growth Rate of Market	4.0 -5.0%	6.0 - 7.0%	

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

We compete in the marketplace based on the quality and accuracy of our test results, our turn-around times and our ability to provide after-test support to those physicians requesting consultation. We believe our average three day turn-around times on oncology-related cytogenetics tests is among the best in the industry and is helping to increase the usage patterns of cytogenetics tests by our referring oncologists and hematopathologists. Based on anecdotal information, we believe that most competing cytogenetics labs typically have 7-21 day turn-around times on average. Traditionally, longer turn-around times for cytogenetics tests have resulted in fewer tests being ordered since there is an increased chance that the test results will not be returned within an

acceptable diagnostic window when other adjunctive diagnostic test results are available. We believe our turn-around times are resulting in our referring physicians requesting more of our testing services in order to augment or confirm other diagnostic tests, thereby giving us a significant competitive advantage in marketing our services against those of other competing laboratories.

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

The following discussion and analysis should be read in conjunction with the financial statements for the three months ended March 31, 2004, included with this Form 10-QSB. Readers are also referred to the cautionary statement, which addresses forward-looking statements made by us.

Critical Accounting Policies

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

Results of Operations for the Three Months ended March 31, 2004 as Compared to the Three Months ended March 31, 2003

During the three months ended March 31, 2004, we generated revenues and costs of revenues of approximately $179,000 and $146,000, respectively, versus revenues and costs of revenues of approximately $70,000 and $97,000, respectively for the three months ended March 31, 2003. This resulted in a gross profit of approximately $33,000 for the three months ended March 31, 2004, versus a gross margin deficit of $27,000 reported for the three months ended September 30, 2002. This change is primarily attributable to our 155% increase in revenues during the most recent period. We believe our gross margin will continue to improve as we perform more tests. During the most recent quarter, we further increased our penetration into existing referral sources for cytogentics tests and added a number of new referral sources.

Our operating expenses for the most recent quarter were approximately $202,000, which was a 130% increase from the approximately $88,000 of operating expenses reported for the three months ended March 31, 2003. This increase was primarily due to the increased expense of additional personnel, including sales personnel and our CEO, as well as increases in other general and administrative expenses associated with our new laboratory facility. Interest expense for the most recent quarter was approximately $21,000, compared to approximately $4,000 of

interest reported for the three months ended March 31, 2003. Interest expense is primarily comprised of interest payable on advances under our Credit Facility as well as interest payable on advances from other related parties and the increase is primarily a result of our increased borrowing.

Liquidity and Capital Resources

During the three months ended March 31, 2004, our operating activities used approximately $129,000 in cash. This amount primarily represented cash used to pay general and administrative expenses associated with our operations. We also spent approximately $13,000 on new equipment. We were able to finance operations and equipment purchases primarily through the sale of equity securities and net advances under our Credit Facility, which together provided approximately $172,000 over the three month period ended March 31, 2004. At March 31, 2004, we had cash and cash equivalents of approximately $55,000.

On April 15, 2003, we entered into equity and debt financing agreements with Medical Venture Partners and its principals. Under the terms of the equity agreements, affiliates of Medical Venture Partners purchased 13,927,062 shares of our common stock for $0.01 per share, which resulted in net proceeds to the company of $114,271 after deducting transaction expenses of approximately $25,000. As a result of these equity transactions, the Company experienced a change of control and Medical Venture Partners and its affiliates, in the aggregate, own approximately 75% of our outstanding common stock. Under the terms of the debt financing agreements, MVP 3, LP, a partnership controlled by Medical Venture Partners, agreed to make available up to $1.5 million of debt financing in the form of a revolving credit facility (the "Credit Facility").

Under the terms of the Credit Facility, our advances are limited, at any given time, to the sum of i) 50% of our net property, plant and equipment; (ii) 80% of our accounts receivable that are less than 90 days old; and (iii) $500,000 that

is not tied to any specific collateral. Interest under the revolving credit agreement is payable monthly at the prime rate plus 8.0%. As of March 31, 2004, we had approximately $715,000 in principal amount outstanding under the Credit Facility.

Between March 31 and May 14, 2004, we sold 300,000 shares of our common in stock in a private placement at $0.25/share to various unaffiliated passive individuals. These transactions generated gross proceeds to the Company of $75,000. Under the terms of the stock purchase agreements used in this transactions, the Company has agreed to use its best efforts to register such shares with the SEC within six months of the date of the transaction. In addition, we are in the process of closing equity transactions with a number of unaffiliated third parties who are passive investors under the same terms as listed above, which we expect will generate gross proceeds of an additional $425,000 by June 30, 2004.

Over the next twelve months, we plan to finance our operations through the cash raised from the above-mentioned equity transactions and borrowings under the Credit Facility with MVP 3. While we believe that, based on our current business plan, our cash on hand plus amounts available under our Credit Facility will be sufficient to finance our operations over the next twelve months, there can be no assurance that such amounts will cover all of our operating needs. In

addition, to the extent our needs for operating capital exceed our current estimates, there can be no assurance that we will be eligible to obtain all of our working capital funding needs from the Credit Facility or another source. If we are unable to obtain such funding, we will be required to curtail or discontinue operations.

Capital Expenditures

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

Staffing

We plan to increase our work force. Currently, we have seven full-time and two part-time employees. We plan to add additional laboratory technicians and research scientists to assist us in handling a greater volume of tests and to perform sponsored research projects. In addition, we intend to continue building our sales force in an effort to sustain our sales growth, as well as add personnel in management, accounting, and administrative functions.

Item 3 - CONTROLS AND PROCEDURES

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

PART II. - OTHER INFORMATION

Item 1. Legal Proceedings

NONE

Item 2. Changes in Securities

On March 31, 2004, we issued 200,000 shares of our common stock in exchange for $50,000 of gross proceeds to the Company pursuant to a board resolution duly adopted by the Board of Directors.

Item 3. Defaults Upon Senior Securities

NONE

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

NONE

Item 5. Other Information

NONE

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

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

Exhibit Number	Description
None	

(b) Reports on Form 8-K.

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

SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

NEOGENOMICS, INC.

Date: May 14, 2004

/s/ Thomas H. White
Thomas H. White
Chief Executive and
Principle Financial Officer