NEOGENOMICS INC
Form 10QSB
November 17, 2006

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington D.C. 20549

FORM 10-QSB

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

For the quarterly period ended September 30, 2006.

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

_____ to _____.

Commission File Number: 333-72097

NeoGenomics, Inc.

(Exact name of registrant as specified in charter)

Nevada	**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 ( )

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act)

___Yes X No

State the number of shares outstanding of each of the issuer s classes of common equity, as of November 15, 2006.

26,991,476

Transitional Small Business Disclosure Format: **YES ( ) NO (X)**

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NeoGenomics, Inc.

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PART I

FORWARD-LOOKING STATEMENTS

This Form 10-QSB contains forward-looking statements relating to NeoGenomics, Inc., a Nevada corporation (referred to individually as the Parent Company or collectively with all of its subsidiaries as the Company or NeoGenomics in this Form 10-QSB), which represent the Company s current expectations or beliefs including, but not limited to, statements concerning the Company s operations, performance, financial condition and growth. For this purpose, any statements contained in this Form 10-QSB that are not statements of historical fact are forward-looking statements. Without limiting the generality of the foregoing, words such as may , anticipation , intend , could , estimate , or continue or the negative or 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, and the ability of the Company to continue its growth strategy and competition, certain of which are beyond the Company s control. Should one or more of these risks or uncertainties materialize or should the underlying assumptions prove incorrect, actual outcomes and results could differ materially from those indicated in the forward-looking statements.

Any forward-looking statement speaks only as of the date on which such statement is made, and the Company undertakes no obligation to update any forward-looking statement or statements to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of unanticipated events. New factors emerge from time to time and it is not possible for management to predict all of such factors, nor can it assess the impact of each such factor on the business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements.

NeoGenomics, Inc.

CONSOLIDATED BALANCE SHEET AS OF

September 30, 2006

(unaudited)

ASSETS	
CURRENT ASSETS:	
Cash and cash equivalents	$ 411,613
Accounts receivable (net of allowance for doubtful accounts of $47,511)	1,136,335
Inventories	59,421
Other current assets	160,130
Total current assets	1,767,499
PROPERTY AND EQUIPMENT (net of accumulated depreciation of $420,190)	1,170,687
OTHER ASSETS	33,169
TOTAL	$ 2,971,355
LIABILITIES AND STOCKHOLDERS DEFICIT	
CURRENT LIABILITIES:	
Accounts payable	$ 401,860
Deferred revenue	89,970
Short-term portion of equipment lease	72,368
Accrued compensation	170,748
Accrued and other liabilities	65,580
Total current liabilities	800,526
LONG TERM LIABILITIES:	
Line of credit (net of unamortized discount of $52,757)	1,572,243
Long-term portion of equipment lease	371,634
Total long term liabilities	1,943,877
TOTAL LIABILITIES	2,744,403
STOCKHOLDERS DEFICIT:	
Common stock, $.001 par value, 100,000,000 shares authorized;	
26,777,842 shares issued and outstanding	26,778
Additional paid-in capital	11,031,760
Deferred Stock Compensation	(110,771)
Accumulated deficit	(10,720,815)
Total stockholders deficit	226,952
TOTAL	$ 2,971,355

See notes to consolidated financial statements.

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NeoGenomics, Inc.

CONSOLIDATED STATEMENTS OF OPERATIONS

(unaudited)

	For the Nine-Months Ended September 30, 2006	For the Nine-Months Ended September 30, 2005	For the Three-Months Ended September 30, 2006	For the Three-Months Ended September 30, 2005
REVENUE	$ 4,713,172	$ 1,134,429	$ 1,601,880	$ 559,349
COST OF REVENUE	2,023,479	648,491	720,866	301,486
GROSS PROFIT	2,689,693	485,938	881,014	257,863
OPERATING EXPENSES:				
Selling, general and administrative	2,158,471	981,561	765,687	436,160
Total operating expenses	2,158,471	981,561	765,687	436,160
OPERATING INCOME (LOSS)	531,222	$ (495,623)	115,327	$ (178,297)
OTHER (INCOME)EXPENSE, NET:				
Interest Expense	231,638	140,845	83,432	61,640
Total Other (Income) Expense, Net	231,638	140,845	83,432	61,640
NET INCOME (LOSS)	$ 299,584	$ (636,468)	$ 31,895	$ (239,937)
NET INCOME (LOSS) PER SHARE:				
Basic	$ 0.01	$ (0.03)	$ 0.00	$ (0.01)
Diluted	$ 0.01	$ (0.03)	$ 0.00	$ (0.01)
WEIGHTED AVERAGE NUMBER				
OF SHARES OUTSTANDING :				
Basic	25,891,331	22,145,593	26,599,981	22,526,370
Diluted	29,318,402	22,145,593	31,172,953	22,526,370

See notes to consolidated financial statements.

NeoGenomics, Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

	For the Nine-Months Ended September 30, 2006	For the Nine-Months Ended September 30, 2005
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$ 299,584	$ (636,468)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation	158,879	88,335
Equity-based compensation	77,250	98,491
Provision for bad debts	212,058	65,727
Amortization of debt issue costs	16,076	13,973
Amortization of lease cap costs	362	-
Amortization of relocation expenses	38,488	14,009
Changes in assets and liabilities, net:		
Accounts receivables, net of write-offs	(797,294)	(383,326)
Inventory	579	(29,244)
Pre-paid expenses	(92,495)	(25,223)
Other current assets	(48,441)	3,474
Deposits	(31,463)	1,500
Accounts payable and other liabilities	(135,022)	104,160
NET CASH USED IN OPERATING ACTIVITIES	(301,439)	(684,592)
CASH FLOWS USED IN INVESTING ACTIVITIES -		
Purchases of property and equipment	(752,679)	(82,659)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Advances from affiliates, net	125,000	620,451
Issuance of notes payable	92,905	-
Repayment of notes payable	(90,905)	-
Proceeds from capital lease	481,179	-
Repayment of capital lease	(36,499)	-
Debt issue costs	-	(53,587)
Issuances of common stock, net of transaction expenses	883,107	164,662
NET CASH PROVIDED BY FINANCING ACTIVITIES	1,454,787	731,526
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	400,669	(35,725)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	10,944	112,548
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 411,613	$ 76,823
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Interest paid	$ 195,286	$ 89,834
Income taxes paid	$ -	$ -

SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Equipment leased under capital lease	$ 481,175	$ -

See notes to consolidated financial statements.

NeoGenomics, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

NOTE A FORMATION AND OPERATIONS OF THE COMPANY

NeoGenomics, Inc. (NEO or the Subsidiary) was incorporated under the laws of the state of Florida on June 1, 2001 and on November 14, 2001 agreed to be acquired by American Communications Enterprises, Inc. (ACE , or the Parent). ACE was formed in 1998 and succeeded to NEO s name on January 3, 2002 (NEO and ACE are collectively referred to as we , us , our or the Company).

Basis of Presentation

Our accompanying unaudited consolidated condensed financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and pursuant to the instructions to Form 10-QSB and Article 10 of Regulation S-X of the Securities and Exchange Commission (SEC). Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In our opinion all adjustments (consisting of normal recurring adjustments) considered necessary for a fair statement of the results for the fiscal period have been included. Operating results for the three and nine-month periods ended September 30, 2006 are not necessarily indicative of the results that may be expected for the year ending December 31, 2006, or for any future period. These financial statements and notes should be read in conjunction with our audited consolidated financial statements and notes thereto for the year ended December 31, 2005 included in our Annual Report on Form 10-KSB.

Certain amounts in the prior years consolidated financial statements have been reclassified to conform to the current year presentation.

Accounts Receivable

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

Stock Options Expensed

Prior to January 2006, we used Statement of Financial Accounting Standards No. 148 Accounting for Stock-Based Compensation - Transition and Disclosure (SFAS No. 148) to account for our stock based compensation arrangements. This statement amended the disclosure provision of FASB statement No. 123 to require prominent disclosure about the effects on reported net income of an entity s accounting policy decisions with

respect to stock-based employee compensation. As permitted by SFAS No. 123 and amended by SFAS No. 148, we continued to apply the intrinsic value method under Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees, to account for our stock-based employee compensation arrangements.

In December 2004, the Financial Accounting Standards Board issued Statement Number 123 (R) (FAS 123 (R)), Share-Based Payments, which is effective for the reporting period beginning on January 1, 2006. The statement will require us to recognize compensation expense in an amount equal to the fair value of share-based payments such as stock options granted to employees. We have the option to either apply FAS 123 (R) on a

modified prospective method or to restate previously issued financial statements, and chose to utilize the modified prospective method. Under this method, we are required to record compensation expense (as previous awards continue to vest) for the unvested portion of previously granted awards that remain outstanding at the date of adoption.

In January 2006, we adopted the expense recognition provisions of SFAS No. 123 (R), and for the three and nine months ended September 30, 2006 recorded approximately $10,800 and $29,200, respectively in stock compensation expense. If we had expensed stock options for the three and nine months ended September 30, 2005 the stock compensation expense would have been approximately $6,000 and $15,300, respectively.

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 earnings per share are calculated by dividing net income by potentially dilutive common shares, which include stock options and warrants.

Net loss per share is calculated by dividing net loss by the weighted average number of common shares outstanding during the period. The impact of conversion of dilutive securities, such as stock options and warrants, is not considered where a net loss is reported as the inclusion of such securities would be anti-dilutive. As a result, basic loss per share is the same as diluted loss per share.

NOTE B EQUITY AND DEBT FINANCING TRANSACTIONS AND NOTES PAYABLE

On January 18, 2006, the Company entered into a binding letter agreement (the Aspen Agreement) with Aspen Select Healthcare, LP, which provides, among other things, that (a) Aspen waived certain pre-emptive rights in connection with the sale of $400,000 of common stock at a purchase price of $0.20/share and the granting of 900,000 warrants with an exercise price of $0.26/share to a SKL Limited Partnership, LP (SKL as more fully described below) in exchange for five year warrants to purchase 150,000 shares at an exercise price of $0.26/share; (b) Aspen had the right, up to April 30, 2006, to purchase up to $200,000 of restricted shares of our common stock at a purchase price per share of $0.20/share (1.0 million shares) and receive a five year warrant to purchase up to 450,000 shares of our common stock at an exercise price of $0.26/share in connection with such purchase (the Equity Purchase Rights); (c) in the event that Aspen did not exercise its Equity Purchase Rights in total, we had the right to sell the difference to SKL at terms no more favorable than Aspen s Equity Purchase Rights; (d) Aspen and us agreed to amend that certain Loan Agreement, dated March 23, 2005 (the Loan Agreement) between the parties to extend the maturity date until September 30, 2007 and modify certain covenants (such Loan Agreement as amended, the Credit Facility Amendment); (e) Aspen had the right, until April 30, 2006, to provide up to $200,000 of additional secured indebtedness to us under the Credit Facility Amendment and receive a five year warrant to purchase up to 450,000 shares of our common stock with an exercise price of $0.26/share (the New Debt Rights); (f) we agreed to amend and restate that certain warrant agreement, dated March 23, 2005 to provide that all 2,500,000 warrant shares (the Existing Warrants) were vested and the exercise price per share of such warrants was reset to $0.31 per share; and (g) we agreed to amend that certain Registration Rights Agreement, dated March 23, 2005 (the Registration Rights Agreement), between the parties to incorporate the Existing Warrants and any new shares or warrants issued to Aspen in connection with the Equity Purchase Rights or the New Debt Rights.

During the period from January 18 - 21, 2006, the Company entered into agreements with four other shareholders who are parties to that certain Shareholders Agreement, dated March 23, 2005, to exchange five year warrants to purchase 150,000 shares of stock in the aggregate at an exercise price of $0.26/share for such shareholders waiver of their pre-emptive rights under the Shareholders Agreement.

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On January 21, 2006 the Company entered into a subscription agreement (the Subscription) with SKL Family Limited Partnership, LP, a New Jersey limited partnership, whereby SKL purchased 2.0 million shares (the Subscription Shares) of the Company s common stock at a purchase price of $0.20/share for $400,000. Under the terms of the Subscription, the Subscription Shares are restricted for a period of 24 months and then carry piggyback registration rights to the extent that exemptions under Rule 144 are not available to SKL. In connection with the Subscription, the Company also issued a five year warrant to purchase 900,000 shares of the Company s common stock at an exercise price of $0.26/share. SKL has no previous affiliation with the Company.

On March 14, 2006, Aspen exercised its Equity Purchase Rights and we issued to Aspen 1,000,000 restricted shares of common stock at a purchase price of $0.20/share for $200,000. In connection with this transaction, the Company also issued a five year warrant to purchase 450,000 shares of common stock at an exercise price of $0.26/share.

Also on March 30, 2006, Aspen exercised its New Debt Rights and entered into the definitive transaction documentation for the Credit Facility Amendment and other such documents required under the Aspen Agreement, dated January 18, 2006. As part of the Credit Facility Amendment, the Company has the right, but not the obligation, to borrow an additional $200,000 from Aspen. Interest on amounts outstanding under this $1.7 million note will be charged at the rate of prime plus 6%. In connection with Aspen making such debt capital available to the Company, we issued a five year warrant to purchase 450,000 shares of common stock at an exercise price of $0.26/share.

During May of 2006, the Company borrowed an additional $100,000 and in September 2006 an additional $25,000 from the Aspen credit facility. At September 30, 2006, $1,625,000 was outstanding on the credit facility and bears interest at prime plus 6%.

On June 6, 2006 as a result of not terminating our Standby Equity Distribution Agreement (SEDA) with Cornell Capital Partners, L.P. (Cornell Capital) a short-term note payable in the amount of $50,000 became due to Cornell Capital.

On July 19, 2006, we requested a $53,000 advance on our Standby Equity Distribution Agreement with Cornell. The advance was completed on July 28, 2006 and resulted in the sale of 83,491 shares of common stock. Our net proceeds were $50,000 after deducting $2,500 in fees to Cornell and a $500 escrow agent fee to Yorkville Advisors Management, LLC, and such proceeds were used to pay off the short term note payable to Cornell Capital.

On August 8, 2006, we requested a $250,000 advance on our Standby Equity Distribution Agreement with Cornell. The advance was completed on August 16, 2006 and resulted in the sale of 279,486 shares of common stock. Our net proceeds were $237,000 after deducting $12,500 in fees to Cornell and a $500 escrow agent fee to Yorkville Advisors Management, LLC.

NOTE C OTHER RELATED PARTY TRANSACTIONS

During the three and nine months ending September 30, 2006, we incurred consulting expenses from a director of $19,000 and $52,700, respectively, for various consulting work performed in connection with managing the financial affairs of the Company and acting as the Principal Financial Officer. During the three and nine months ending September 30, 2005, we incurred consulting expenses from the same director of $22,500 and $55,000, respectively, for various consulting work performed in connection with managing the financial affairs of the Company and acting as the Principal Financial Officer.

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NOTE D COMMITMENTS AND EQUIPMENT LEASES

Operating Leases

In August 2003, the Company entered into a three year operating lease for 5,200 square feet at our laboratory facility in Fort Myers, Florida. On June 29, 2006 the Company signed an amendment to the original lease which extended the lease through June 30, 2011. The amendment included the rental of approximately 4,400 square feet adjacent to our current facility. This space will allow for future expansion of our business in 2006. This lease amendment which allowed the Company this additional space on June 1, 2006 results in total payments of approximately $732,600 over the remaining life of the lease. Such amount includes estimated operating and maintenance expenses and sales tax. This lease extension calls for annual increases of rental payments of 3% per annum. The rent expense for the three and nine months ended September 30, 2006 was approximately $35,000 and $80,900, respectively.

As part of the merger of The Center for CytoGenetics, Inc. into the Company on April 18, 2006, the Company assumed the lease of an 850 square foot facility in Nashville, Tennessee. The lease commenced on September 1, 2005 and is for three years. The average monthly rental expense is approximately $1,350 per month. The lease expense for the three and nine months ended September 30, 2006 was approximately $4,000 and $5,300, respectively. The Company is actively trying to sublease this facility.

On June 15, 2006 the Company entered into a lease for an additional 5,386 square feet of laboratory space in Nashville, Tennessee. This space will be used for additional expansion of our Tennessee facility. As part of the lease we have the right of first refusal on an additional 2,420 square feet directly adjacent to the facility. The lease is a five year lease and results in total payments by the Company of approximately $340,000. The rent expense for the three and nine months ended September 30, 2006 was approximately $14,100 and $15,600, respectively.

On August 1, 2006 the Company entered into a lease for 1,800 square feet of laboratory space in Irvine, California. The lease is a nine month lease and results in total payments by the Company of approximately $23,000. The rent expense for the three and nine months ended September 30, 2006 was approximately $5,200.

Capital Leases

During March 2006 the Company entered into a 5 year lease agreement for laboratory equipment. The cost of the equipment was approximately $134,200 and requires monthly lease payments of approximately $2,500, with an effective interest rate of 8% per annum. At September 30, 2006, approximately $121,400 is still outstanding on this lease.

During August 2006, the Company entered into 4 different 5 year lease agreements for laboratory equipment costing approximately $347,000. The Company paid approximately $22,000 up front in capital costs to reduce the effective interest rate on each lease.

The first lease covered approximately $48,200 of the equipment and requires monthly lease payments of approximately $1,200. At September 30, 2006, approximately $47,700 is still outstanding on this lease.

The second lease covered approximately $98,400 of the equipment and requires monthly lease payments of approximately $2,400. At September 30, 2006, approximately $97,300 is still outstanding on this lease.

The third lease covered approximately $100,200 of the equipment and requires monthly lease payments of approximately $2,100. At September 30, 2006, approximately $98,900 is still outstanding on this lease.

The forth lease covered approximately $100,200 of the equipment and requires monthly lease payments of approximately $2,400. At September 30, 2006, approximately $99,000 is still outstanding on this lease.

Purchase Commitment

On June 22, 2006, the Company entered into an agreement to purchase three automated FISH signal detection and analysis systems over the next 24 months for a total of $420,000. The Company agreed to purchase two systems immediately and to purchase a third system in the next 15 months if the vendor is able to make certain improvements to its system. As of September 30, 2006, the Company had purchased and installed 2 of the systems.

NOTE E OTHER SUBSEQUENT EVENTS

On October 16, 2006, we requested a $200,000 advance on our Standby Equity Distribution Agreement with Cornell. The advance was completed on October 23, 2006 and resulted in the sale of 167,842 shares of common stock. Our net proceeds were $189,500 after deducting $10,000 in fees to Cornell and a $500 escrow agent fee to Yorkville Advisors Management, LLC.

On October 31, 2006, our shareholders and Board of Directors amended and restated the NeoGenomics Equity Incentive Plan, which was originally approved in October 2003 (the Stock Option Plan). As part of this amendment and restatement, the shareholders and Board of Directors approved an increase in the shares reserved under the Stock Option Plan from 10% of our outstanding common stock at any given time to 12% of our Adjusted Diluted Shares Outstanding at any given time. Adjusted Diluted Shares Outstanding are defined as basic common shares outstanding on the measurement date plus that number of shares that would be issued if all convertible debt, convertible preferred equity securities and warrants were assumed to be converted into common stock on the measurement date. The definition of Adjusted Diluted Shares Outstanding specifically excludes any unexercised stock options that may be outstanding under either the Stock Option Plan or the ESPP on any measurement date.

On October 31, 2006, our shareholders and Board of Directors approved an Employee Stock Purchase Plan (ESPP) effective January 1, 2007. The ESPP as approved stipulates that the rights to purchase shares granted under the plan be considered options issued under an employee stock purchase plan, as that term is defined in Section 423(b) of the Code. The number of shares reserved for issuance under the ESPP has been set to equal 1% of the Adjusted Diluted Shares Outstanding (as defined above) at any given time. Under the terms of the ESPP, the Board of Directors has been authorized to set the parameters of any particular offering, provided, however, that no rights to purchase shares may be offered to employees at a price which is less than 95% of the fair market value of our common stock. The Board of Directors has further delegated the authority to administer the ESPP to the Compensation Committee and directed the Compensation Committee to ensure that no offerings under the plan are compensable events under SFAS 123(R), which effectively limits any offering period under the plan to 30 days.

End of Financial Statements

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

The following discussion and analysis should be read in conjunction with the financial statements for the three and nine months ended September 30, 2006, included with this Form 10-QSB. Readers are also referred to the cautionary statement, which addresses forward-looking statements made by us. As used in this report, the terms we , us , our , NeoGenomics , and the Company mean NeoGenomics, Inc. and subsidia unless otherwise indicated.

Overview

NeoGenomics operates a cancer genetics laboratory that is targeting the rapidly growing genetic and molecular testing segment of the medical laboratory market. We operate in two laboratory locations: the first location is in Fort Myers, Florida and the second is in Nashville, Tennessee. We currently offer the following types of testing services to oncologists, pathologists, urologists, hospitals, and other laboratories that do not perform genetic testing throughout the United States: a) cytogenetics testing, which analyzes human chromosomes, b) Fluorescence In-Situ Hybridization (FISH) testing, which analyzes abnormalities at the gene level, c) flow cytometry testing services, which analyzes clusters of differentiation on cell surfaces, d) morphological testing, which analyzes cellular structures and e) molecular testing which involves testing DNA and other molecular structures to screen for and diagnose single gene disorders. All of these testing services are widely used in the diagnosis of various types of cancer. Our common stock is listed on the NASDAQ Over-the-Counter Bulletin Board (the OTCBB) under the symbol NGNM.

We believe that the genetic and molecular testing segment of the medical laboratory industry is the most rapidly growing segment of the market. Approximately five years ago, the World Health Organization reclassified cancers as being genetic anomalies. This growing awareness of the genetic root behind most cancers combined with advances in technology and genetic research, including the complete sequencing of the human genome, have made possible a whole new set of tools to diagnose and treat cancers. This has opened up a vast opportunity for laboratory companies that are positioned to address this growing market segment.

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

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

Clinical labs typically are engaged in high volume, high automation tests on blood and urine. Clinical lab tests often involve testing of a less urgent nature, for example, cholesterol testing and testing associated with routine physical exams. This type of testing yields relatively low average revenue per test.

Anatomic pathology (AP) testing involves evaluation of tissue, as in surgical pathology, or cells as in cytopathology. The most widely known AP tests are Pap smears, skin biopsies, and tissue biopsies. AP tests are typically more labor and technology intensive than clinical lab tests and thus typically have higher average revenue per test than clinical lab tests.

Genetic/molecular testing typically involves analyzing chromosomes, genes or base pairs of DNA for disorders. Both genetic and molecular testing have become important and highly-accurate diagnostic tools over the last five years. New tests are being developed rapidly, thus this market segment is expanding rapidly. Genetic/molecular testing requires very specialized equipment and credentialed individuals (typically MD

or PhD level) to certify the results and typically yields the highest average revenue per test of the three market segments. The following chart shows the differences between the genetic/molecular segment and other segments of the medical laboratory industry. Up until about five years ago, the genetic/molecular segment was considered

to be part of the AP segment, but given its rapid growth, many industry veterans now break genetic/molecular testing out into its own segment.

COMPARISON OF THE MEDICAL LABORATORY MARKET SEGMENTS (1)

Attributes	Clinical	Anatomic Pathology	Genetic/Molecular
Testing Performed On	Blood, Urine	Tissue/Cells	Chromosomes/Genes/DNA
Testing Volume	High	Low	Low
Physician Involvement	Low	High - Pathologist	Low - Medium
Malpractice Ins. Required	Low	High	Low
Other Professionals Req.	None	None	Cyto/Molecular geneticist
Level of Automation	High	Low-Moderate	Moderate
Diagnostic in Nature	Usually Not	Yes	Yes
Types of Diseases Tested	Many Possible	Typically Cancer	Rapidly Growing
Typical Revenue Per Test	$5 - $35/Test	$25 - $500/Test	$200 - $1,000/Test
Estimated Size of Market	$25 - $30 Billion	$10.0 - $12.0 Billion	$3.0 - $4.0 Billion (2)
Estimated Growth Rate	4.0 -5.0%	6.0 7.0% Annually	25.0+% Annually
Established Competitors	Quest Diagnostics	Quest Diagnostics	Genzyme Genetics
	LabCorp	LabCorp	Quest Diagnostics
	Bio Reference Labs	Genzyme Genetics	LabCorp
	DSI Laboratories	Ameripath	Major Universities
	Hospital Labs	Local Pathologists	
	Regional Labs		

(1) Derived from industry analyst reports and company estimates.

(2) Includes flow cytometry testing, which historically has been classified under Anatomic Pathology testing.

Our primary focus is on the oncology market. We target oncologists that perform bone marrow sampling and treat patients with leukemia, lymphoma and other forms of cancer as well as urologists that treat patients with bladder cancer. Historically, our clients have been

predominantly located in Florida. Beginning in January 2005, based on the experience of our new President, we began targeting large institutional clients throughout the United States. This was successful and we landed several clients outside of the State of Florida. During the third quarter of 2005 we began testing for bladder, breast and cervical cancer. Our bladder, breast and cervical cancer testing programs are focused around the UroVysion, PathVysion and Cervicyte tests and test volumes have grown significantly since their introduction. As we grow, we anticipate offering additional tests that broaden our focus from genetic and molecular testing to more traditional types of anatomic pathology testing that are complementary to our current test offerings.

We compete in the marketplace based on our turn-around times, the quality and accuracy of our test results and our ability to provide after-test support to those physicians requesting consultation. We believe our average 3-5 day turn-around time on oncology-related cytogenetics and FISH tests is helping to increase the usage patterns of cytogenetics and FISH tests by our referring oncologists and hematopathologists. Based on empirical data, we believe that cytogenetics and FISH labs typically have 7-14 day turn-around times on average with some labs running as high as 21 days. Traditionally, longer turn-around times for cytogenetics and FISH tests have resulted in fewer tests being ordered since there is an increased chance that the test results will not be returned within an acceptable diagnostic window when other adjunctive diagnostic test results are available. We believe our turn-around times result in our referring physicians requesting more of our testing services in order to augment or confirm other diagnostic tests, thereby giving us a significant competitive advantage in marketing our services against those of other competing laboratories.

We have an opportunity to add additional types of tests to our product offering. We believe that by doing so we may be able to capture increases in our testing volumes through our existing customer base as well

as more easily attract new customers via the ability to bundle our testing services more appropriately to the needs of the market. We believe this bundled offering approach could drive large increases in our revenue and afford us significant synergies and efficiencies in our operations and sales and marketing activities by increasing the average number of tests performed per customer requisition received. For instance, the addressable market for the initial testing for most hematological cancers is approximately $1,700 - $3,000 of revenue per case based on Medicare reimbursement rates and is generally comprised of one or more of the following tests: cytogenetics, fluorescence in-situ hybridization (FISH), flow cytometry, and morphology testing.

Addressable Market for Hematological Cancer Testing	Medicare
	Avg. Rev/Test
Cytogenics	$400-$600
Fluorescence In Situ Hybridization (FISH) Technical component	$300-$600