



**Expect Two Managed Care Organization Contracts, Second Abbott Test And A Host Of Organizational Changes By Year-end; Maintain BUY, \$2.40 Target**

**NEOGENOMICS, INC.**  
**OTCBB: NGNM**

**2Q:10 HIGHLIGHTS**  
**August 10, 2010**

**MAINTAIN: BUY**

Price: 08/09/10            \$1.05  
Target Price                \$2.40

2Q:10 Revenue:        \$8,490,000  
2Q:10 Net Loss:        \$978,000  
2Q:10 EPS:              (\$0.03)

**KEY DATA & STATISTICS**

52-Wk Range:        \$1.04 - \$1.89  
Fully Diluted Shares O/S: 48.6M  
Float:                19.3M  
Market Cap:            \$39.2M  
Insider Ownership:    42.3%  
Average Daily Volume: 33.3 K  
Assets (6/31/10):    \$14,651,000  
Liabilities (6/31/10): \$ 10,268,000  
Fiscal Year End:        Dec. 31

**COVERING ANALYST**

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Important disclosures and  
disclaimers on pages 10-11.

**HIGHLIGHTS**

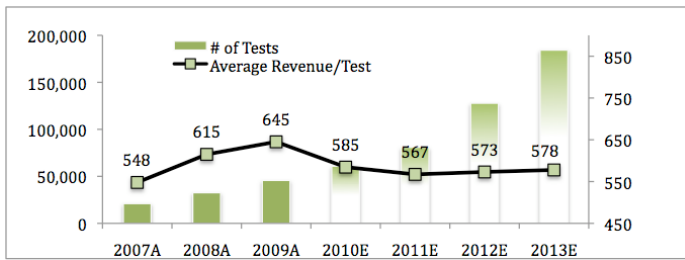
- **We have lowered our target price to \$2.40 (from \$3.01) on a softer top-line growth outlook. We contend that NGNM remains operationally strong.**
- **Revenue in 2Q:10 increased 14% year-over-year from \$7.5 to \$8.5 million. We expect 5 year revenue CAGR of 35% (from 42%).**
- **An appointment of a new Vice President of Sales and Marketing is expected to drive test numbers. Test volumes are expected to increase 38% from 7,555 in 3Q:09 to 10,198 in 3Q:10.**
- **The gross margin is expected to expand by 100 basis points sequentially, reflecting the ease of pricing pressures and aid of new contracts signed with major managed care organizations. Service agreement expansion with Blue Cross, which comprises 40% of insurance payers.**
- **We expect continued moderation in average revenue per test, which is expected to decline 12% in 3Q:10 on a year over year basis.**
- **We expect uptake in Melanoma FISH Test revenue driven by focused marketing and sales initiatives.**
- **NGNM expects to launch the next Abbott test by year-end.**

**SUMMARY**

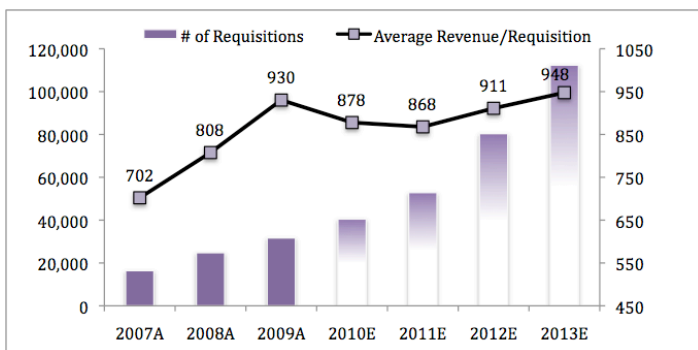
2Q:10 NGNM results were softer than our expectations and missed our revenue projection by 3%. Four factors were primarily responsible for the miss:

- Pricing pressures from managed care organizations
- Overestimated productivity from a recently bolstered sales force
- Slower than expected Melanoma FISH test adaption and lack of results from marketing partners
- A higher than anticipated impact of internalization of bladder cancer testing by NGNM's largest client.

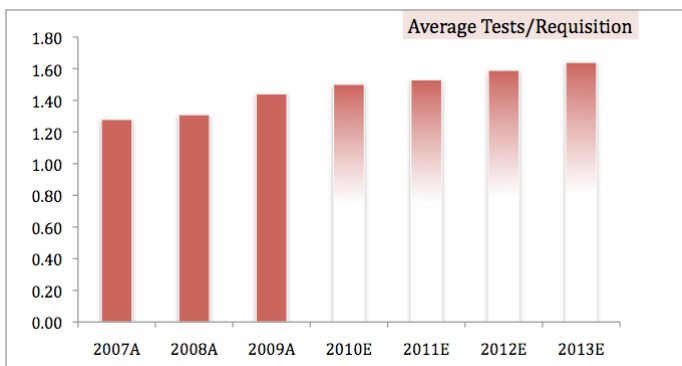
Growing Number of Tests offset lower Average Revenue per Test



Requisition Volumes and Average Revenue per Requisition expected to increase



Average test per requisition: significant economies of scale



Management has undertaken several organizational changes in response to the situation. We expect these changes will reflect positively during 2H:10.

NeoGenomics has been in the process of signing contracts with several insurance providers to be an in-network lab for clients. Management contends that they have covered significant ground and currently have a remaining 5-8% revenue exposure to insurance payments. While we expect contracts with managed care organizations will result in lower revenue per test, it should ensure payment for service and use of tests and labs. We also expect the initial revenue impact to be offset with greater test volumes as adoption rates increase due to endorsement of such insurance payers.

In our view, the restructuring of the sales team will not only push Melanoma test sales but also other tests. NGNM's TECH only component is expected to gain market acceptance with companies looking to internalize testing. This component proved to be strong in 2Q:10. Operating expenses are expected to rationalize and moderate as the company gains scale and higher productivity from a trained workforce.

NGNM is a young company with significant growth opportunities. We reiterate the strength and scalability of the business model and continue to see significant traction going forward. However, given the current circumstances and until we have more forward visibility, we are reducing our growth outlook and price target. We rate the NGNM stock a BUY with a one-year price target range of \$2.40 per share.

## BACKGROUND

### Company Profile

NeoGenomics Inc. (OTC BB: NGNM, BUY) is a network of three clinical laboratories formed in 2001 and headquartered in Fort Meyers, Florida. NGNM concentrates on cancer diagnosis and prognosis by providing complex testing services to oncologists and pathologists. NGNM's tests are performed using bone marrow, urine and solid tumor samples. NGNM primarily employs four different genetic test methods; Cytogenetics Testing, Flow Cytometry Testing, Fluorescence In Situ Hybridization (FISH) Testing, and Molecular Testing. Pathologists have the option of receiving a comprehensive report, which includes an in-house pathologist's interpretation of the test results or

technical report without the interpretation. The tech-only option allows community pathologists to retain the professional interpretation portion of the revenue stream and compete with large lab competitors, as results are turned around very quickly. This strategy gives NGNM an advantage, as many of its competitors only offer the comprehensive reporting model.

### Industry

According to Knowledge Source, the clinical laboratory industry consists primarily of three types of providers: hospital-based laboratories, physician-office laboratories and independent clinical laboratories. The entire US clinical laboratory testing industry had revenues of more than \$52 billion in 2009; approximately 55% of such revenues were attributable to hospital-affiliated laboratories, approximately 34% were attributable to independent clinical laboratories and others, and approximately 11% were attributable to physicians in their offices and laboratories. NGNM's niche is the independent clinical market, which is highly fragmented. An estimated 10% of the players in the independent clinical market perform genetic testing.

### Competition

Quest Diagnostics Inc. (NYSE: DGX, NC) and Laboratory Corporation of America Holdings (NYSE: LH, NC) are the two largest clinical labs in the US. Quest has captured over 15% or \$7.5 billion of the total US diagnostic testing market. Other independent clinical labs comprise 20% of the market, hospital based laboratories have captured 60% of the market and the remaining 5% of the market is physician office labs. Pure-play genetic testing labs are significantly smaller without any single player having a substantial market share, however growth rates experienced by these players typically range from the mid- to upper double-digits.

## STRENGTHS

### Competitive Advantages

NGNM has been successful in achieving a high accuracy rate, a rapid turn-around time and the continuous development of new tests. Geographically, NGNM has positioned its labs in three regions of the U.S., which has helped expand customer base and market presence. The company has been able to set and maintain turn-around times for test results that have become industry benchmarks. NGNM's FISH tests have a 2-4 day turn around, Flow Cytometry tests between 12-24 hours and Cytogenetics within 3-5 days. NGNM is one of few labs to offer a tech-only option for its services, which subsequently has resulted in new customers.

### Growth Catalysts

- **NGNM is in the process of organization changes, which can only improve sales production, in our opinion.** New key employees are in the process of being taken on board. In particular, in August a new Vice President of Sales and Marketing will hit the ground running and boost sales productivity in our opinion. Also, a new client relationship management system is in place.
- **We think NGNM's strategic investments in marketing and sales infrastructure will help leverage sales.** Over the last year NGNM has invested heavily in its sales team, training and equipping them with marketing material to push sales. A matured sales force directed by the new VP, should be able to add considerably to the number of tests performed. Management has stated that the sales team is ready to take the company to the next level with its knowledge base and training and expects significant traction from its sales force over the next few years.
- **An increase in the number of contracts with major managed care providers will put NGNM on the radar of many new customers.** During 2Q:10 NGNM signed two such contracts. This allows NGNM to be an in-network lab and provider of tests. Being in net-work allows practitioners to recommend patients to use NGNM's services without the burden of out-of network expense to patients.

- **The Melanoma FISH test launched in February 2010 is expected to gain traction with a bolstered sales force.** The validation study included analyses of over 500 biopsy specimens that included normal nevi, dysplastic unusual looking nevi and abnormal melanoma samples. The diverse sample base was tested over a four-month period by NeoGenomics. NGNM obtained a specificity of 97%. This is important to the NGNM story because a high degree of accuracy at this level encourages adoption of the test by the dermapathology community. The Melanoma FISH test has been actively marketed by the sales team in the first and second quarters and the initial response has been positive. The team is encouraging the use of this tests in difficult to diagnose cases and has trained over 140 pathologists. We expect NGNM to recoup and nullify any negative first half 2010 financial impact from the Melanoma test in the second half of the year.
- **Five new Molecular Tests expected in the year: Management's ability to provide new tests puts the company on the threshold of exciting change and growth.** NGNM intends to introduce five new molecular tests in this year, two which tests for KRAS and BRAF have already been launched. The Company's innovative new tests and products coupled with its competitive advantages of superior service and faster turnaround times will continue to provide a boost to sales. We expect the five new tests, as well as the second test under its agreement with Abbott that it intends to launch later this year, to add substantially to the top line in 2011.
- **NGNM's financials are strengthening, in our view.** The financial position of the company is robust. The company has a healthy cash balance of \$2.7 million as of June 30, 2010 along with available credit under various facilities.

## RISKS

- **Dealing with insurance payers:** As noted in the 2Q:10 conference call, the company was not reimbursed for certain Blue Cross/Blue Shield tests performed in Q3:09, Q4:09, Q1:10 and Q2:10,, average revenue per test was negatively impacted. In addition however, this issue was resolved in May 2010 with an amendment to the Blue Cross contract. The Company is not a participating provider in certain other managed care contracts, resulting in loss of revenues in such cases. NGNM is actively tackling the issue and has hired a director with significant experience in managed care contracts. The company is targeting key insurance carriers to become in-network and will be contracting with them over the next several months. These contracts typically reimburse at a lower rate. The company expects an increase in test volumes due to these contracts as practitioners will be more comfortable using a lab with in-network coverage in place. In the longer run, we contend the higher test volumes should offset the discounted price by managed care organizations and NGNM should see profitability from these contracts. Insurance payers form 30% of the payers.
- **Lack of Physician Awareness of the new Melanoma FISH Test:** The dermapathology community is unaware of the gene-based tests. This involves more initiative required from the company to train and bring awareness of its products to encourage acceptability. We expect that these training efforts would bear fruits in the longer term, but in the short term the expenses associated with such efforts will weigh on the financials.

## PERFORMANCE

### 2Q:10 Analysis

Revenue for 2Q:10 missed our estimate by 3% and year-over-year revenue growth fell short of NGNM's internal projections and came in at 13.8%. A significant 60% of the revenue loss is attributable to pricing pressures from insurance payers while the remaining 40% is a result of change in test mix. The revenue loss from these two trends is estimated at \$1.0 million over the last year.

Average revenue per requisition (ARPreq) in 2Q:10 was \$887, down 6.9% y-o-y due to lower average revenue per test, which was partially offset by slightly higher tests per requisition. ARPreq increased 0.9% sequentially. The average number of tests per requisition was 1.51, increasing 4.5% on a year over year basis and 3.0% on a sequential basis in 2Q:10, with the changing test mix towards multiple tests per requisition. Average revenue per test decreased 11.0% y-o-y and 2.1% sequentially in 2Q:10. The decrease was caused by the changing test mix, internalization of bladder cancer FISH

testing, and on-going pricing pressure from health insurance providers. Test volumes were up 27.8% on a y-o-y basis and 3.0% q-o-q. Requisition volumes also increased 22.3% year-over-year but remained virtually unchanged on a sequential basis. DSOs (Day's Sales Outstanding) stood at 58 days at end of 2Q:10 lower than the 59 days at the end of Q1:10 as the company collected on Q1 receivables related to the T.C Grandfather legislation.

As result of internalization from one large customer, high margin urinary bladder FISH test is being replaced by lower margin immunohistochemistry tests. As a result of the three factors mentioned above, the gross margin contracted to 46% in 2Q:10 from 55% in 2Q:09.

Sales and marketing expenses grew at a de-accelerated pace increasing 12.8% y-o-y to \$1.9 million in 2Q:10 from approximately \$1.7 million in 1Q:09 representing 23% of total revenue. Management continued to invest in its sales infrastructure but has significantly reduced its recruiting initiative, given the current state of affairs. NGNM ended the quarter with 25 sales representatives, 4 regional managers, 6 marketing personnel and many customer services representatives. General and administrative expenses increased 25.0% on a year-over-year basis to approximately \$2.8 million but declined sequential by 4.6% moving to a more normalized figure post the Melanoma FISH test launch. The quarter includes \$100,000 spent on R&D activities.

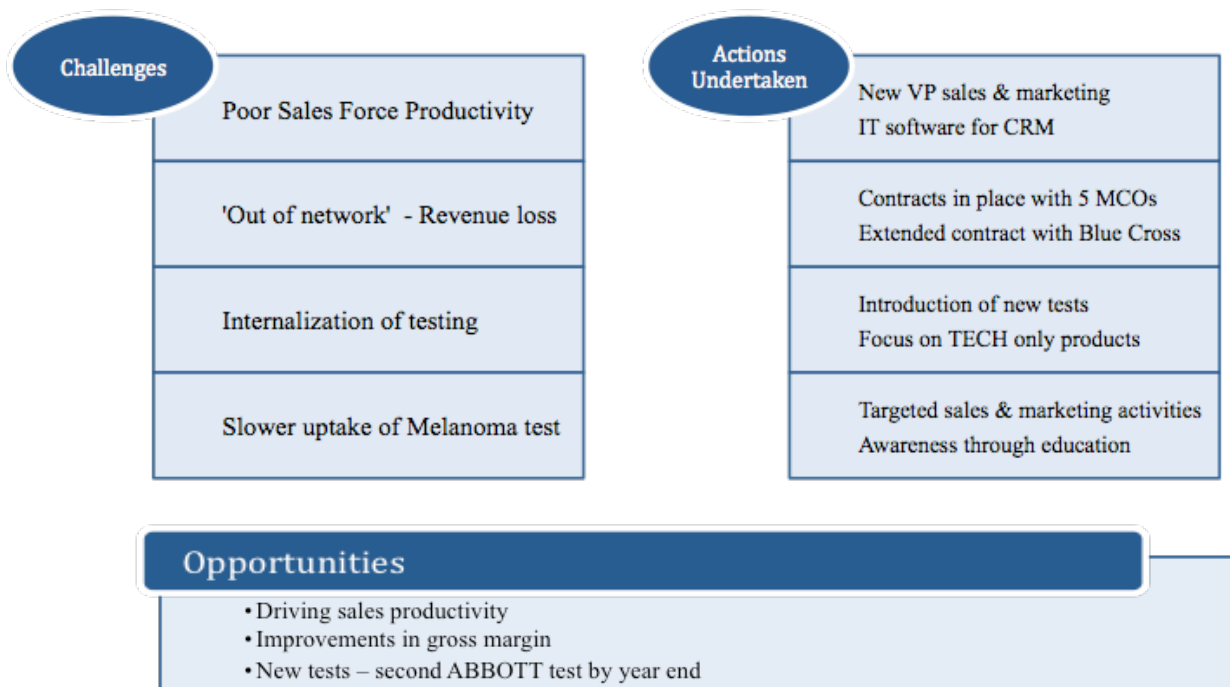
Interest expense increased 39% year over year primarily due to increased interest expense on capital leases and NGNM's working capital facility. At the end of 2Q:10, NGNM had approximately \$2.96 million drawn on its working capital facility and approximately \$3.64 million of capital leases outstanding.

Depreciation expense for the quarter stood at \$423,000. EBITDA was negative \$374,000. Excluding the non-cash stock based-compensation charges and warrant amortization of \$225,000, the adjusted EBITDA was negative \$149,000 for 2Q:10. Full time employees increased from 174 at year end December 2009 to 189 at the end of the quarter.

NGNM ended the period with \$2.7 million in cash and restricted cash, \$627 thousand available through its credit facilities, and \$8.0 million available from the share purchase agreement with Fusion capital. The credit facility includes a \$5.0 million accounts receivable facility, which there was approximately \$3.6 million available and \$3 million drawn as of June 30, 2010,

**Short Term Challenges and Resolutions**

Management has identified the following four primary challenges in the short run and laid out the actions indicated to deal with these problems.



## OUTLOOK

While the second quarter results were below the company guidance, we continue to value NGNM's business model and potential to grow significantly. We emphasize that NGNM is operationally sound and management has been proactive in acknowledging the situation and targeting solutions to eliminate inefficiencies. While the macro environment continues to be a source of concern, internal restructuring and contracting with insurance payers should result in productivity gains and stabilization of average price, respectively. The company has several viable growth opportunities including their TECH only product range, the recently launched Melanoma FISH test, and two new proprietary tests in partnership with Abbott. While we are reducing our near term forecasts to reflect the difficult current operating environment, we contend NGNM is a solid long term investment, which remains as an undervalued gem.

For 3Q:10, we expect targeted efforts on increasing productivity and efficiency to provide positive top line growth momentum. However, this will be offset by normal Q3 seasonality and the continued impact from managed care payers although mitigated to a great extent by contracts signed over the last two quarters. We contend that an increased signing of contracts with insurance providers will initially reduce revenues as a result of lower reimbursement per test, but increase the average number of tests. Additionally, we expect the test mix to include more IMC and molecular tests, which are reimbursed at lower levels than other tests. Average revenue per test is expected to be \$572.8 in 3Q:10, representing a decrease of 2.4% sequentially and 12.2% on a year over year basis. IMC tests, though reimbursed at lower rates, usually comprise multiple tests per case.

We expect Average Tests per Requisition of 1.51 in 3Q:10. This represents a 2.0% increase on a year over year basis. Average revenue per requisition is expected to decrease 2.5% sequentially and 10.5% on a year over year basis in 3Q:10.

We expect higher number of tests to be partially offset by decline in average revenue per test and average test per requisition. For 3Q:10, we expect test volumes to increase 33.1% on a year over year basis to approximately 14894 tests. Requisition volumes are expected to increase 30.6% y-o-y to 9863 in 3Q:10.

Given the conflicting metrics, we expect the top line to increase 16.9% year over year in 3Q:10 to approximately \$8.5 million. Primary internal drivers for revenue growth are; focus on melanoma FISH test, higher sales productivity from a restructured sales team, and focused marketing and sales activities. We expect NGNM to now grow its revenue at a 35% five year CAGR.

NGNM has historically sustained an average gross margin of 50%. Over the past three quarters the company has witnessed significant margin compression on account of loss of higher margin tests due to internalization and reimbursement pressures from managed care organizations. We expect moderation in the gross margin impact in the fourth quarter as the contracts with insurance payers take effect. We model an 88 basis points improvement, to 47% in 3Q:10, as the Blue Cross agreement falls in place. Blue cross accounts for approximately 30% of the insurance payers.

Although NGNM has been investing about 20-25% of revenues in sales initiatives, sales productivity has lagged. Going forward we expect continued investments in the sales organization, albeit at a slower pace. As the management tackles productivity issues, we model a lower growth rate at about 3.3% y-o-y.

We contend that NGNM has access to adequate capital for funding its operations and future growth opportunities. The accounts receivable facility and removal of restriction on cash will ride the company through irregularities with test reimbursements such as the T.C Grandfather reimbursement issue. In our view, NGNM will not require funding in the short or intermediate term.

We have modeled higher interest expenses as the company uses its credit lines to fund its sales and marketing initiatives and higher accounts receivable of 58 days. We expect NGNM to report a loss of (\$557,000) in 3Q:10. Based on a share count of approximately 37.4 million, we expect a net loss per diluted share of \$0.02 in 3Q:10.

## VALUATION

NeoGenomics is currently trading at \$1.05 per share. The stock price has seen a high of \$1.95 and a lower end of \$1.04 over the last one year. The markets have reacted unfavorably to the pre earnings announcement.

NGNM continues to be transparent and effective in communicating its position to the investment community. Prices have rebounded from the \$1.05 level, establishing NeoGenomic's value proposition and the confidence of the investing community in the management's ability to execute its vision.

We have incorporated the possible reduction in revenues as the management deals with current issues and factored in all of NGNM's restructuring and growth catalysts. Our valuation methodology uses an Enterprise Value (market cap +



net debt - cash)/ Sales metric, as the institutional investment community is interested in NeoGenomics' peers ability to continue growing revenue rather than earnings at this time.

An example is Clariant (Nasdaq: CLRT, N/C), which in 2009 generated \$91 MM in revenue, a 24% increase over 2008, but lost over \$10 MM, yet CLRT still trades at an EV/Sales multiple of 3.5x 2010 estimated revenue. In contrast, NeoGenomics generated \$29.5 million in revenue in 2009, a 47% increase over 2008 and only lost \$2.3 million, yet NGNM trades at an EV/Sales multiple of 1.1x 2010 estimated revenue. We contend that NGNM remains undervalued because the investment community has not developed a full understanding of NGNM's value proposition.

We deem that NGNM deserves a premium to the peer group average based on four factors; the Abbott agreement, which will allow NGNM to launch three proprietary tests (melanoma was the first of the three), the management expertise in handling and directing the company to profitability, the rapid turnaround-times of the company's testing services, which are among the best in the industry, and lastly, a maturing sales force, which will soon be under the direction of an experienced VP, which is expected to provide a fresh impetus to the top line.

Valuation: We contend that given NeoGenomics' value proposition, it should trade at a premium to its peers and that over time it will trade up to 2.5x our 2011 sales estimate of \$45.9 million. **This, and a comparable analysis of competitors, results in an expected price target of \$2.40 per share over the next twelve months.**

NGNM is well positioned competitively and is a compelling investment story. It has established products with excellent scientific foundations, displays sound financial momentum and has an attractive valuation.

The Abbott transaction has opened doors to excellent future opportunities for the company. The availability of Abbott IP and technology for further tests coupled with the established operating infrastructure represent a significant untapped potential. In our view, the introduction of more proprietary tests will dramatically change the value proposition of the

company. The development of the proprietary Melanoma test has validated the company's expertise and experience to launch such tests.

NGNM is a young and vibrant company focused on growth and profitability. The company's business model is robust and flexible, which allows for quick reaction to new opportunities. The company's performance in the current quarter was lower than expected but continues to impress the investing community who continue to support the company. The company has a strong balance sheet and cash position which will support NGNM's business plans.

The growth pipeline for NGNM is both diverse and deep. Options include organic growth and growth through mergers and acquisitions. NGNM remains adequately cushioned in this poor credit environment. We note the management's disciplined approach to sustainable growth and intention to drive long term value for the shareholders instead of short term profit showing.

We think that NGNM's scalable model is sound and we see significant traction going forward. We contend 2010 will be another transition year at NGNM and 2011 will be the year NeoGenomics turns an annual profit. **With ample upside to our target, we advise investors to take advantage of the current valuation and we reiterate our BUY rating of this compelling long-term opportunity.**

**NeoGenomics, Inc. (OTCBB: NGNM)**

Historical and Projected Annual Statements of Income updated:  
US\$ in thousands, except where noted

KEY METRICS	2008A				2009A				2010E				Annual Comparison					
	Mar Qtr 1 A	Jun Qtr 2 A	Sep Qtr 3 A	Dec Qtr 4 A	Mar Qtr 1 A	Jun Qtr 2 A	Sep Qtr 3 A	Dec Qtr 4 A	Mar Qtr 1 A	Jun Qtr 2 E	Sep Qtr 3 E	Dec Qtr 4 E	2008A	2009A	2010E	2011E Projection	2012E	2013E
Average Revenue/Requisition	723	835	801	820	900	953	966	908	879	887	865	880	808	930	878	868	911	948
Average Tests/Requisition	1.17	1.35	1.33	1.31	1.36	1.45	1.48	1.48	1.47	1.51	1.51	1.52	1.31	1.44	1.50	1.53	1.59	1.64
Average Revenue/Test	615.9	617.4	602.4	623.9	661.1	659.2	652.2	613.5	599.5	587.0	572.8	579.3	615.1	645.2	584.6	567.2	573.0	577.8
# of Tests	6759	7906	8384	9490	10457	11316	11188	12714	14042	14464	14894	16371	32539	45675	59771	79447	125577	181077
# of Requisitions	5405	5845	6308	7222	7681	7829	7555	8591	9580	9576	9863	10771	24780	31677	39790	51926	78979	110413
DSO	64	68	62	45	51	51	53	54	59	58	55	55	60	52	57	55	55	55
<b>Sequential Growth</b>																		
Average Revenue/Requisition	0.3%	15.4%	(4.1%)	2.4%	9.8%	5.9%	1.4%	(6.0%)	(3.2%)	0.9%	(2.5%)	1.8%	15.0%	15.2%	(5.6%)	(1.1%)	5.0%	4.0%
Average Tests/Requisition	(7.9%)	15.4%	(1.5%)	(1.5%)	3.9%	6.2%	2.5%	(0.1%)	(1.0%)	3.0%	(0.0%)	0.7%	2.3%	10.1%	4.1%	1.9%	3.9%	3.1%
Average Revenue/Test	8.2%	0.3%	(2.4%)	3.6%	6.0%	(0.3%)	(1.1%)	(5.9%)	(2.3%)	(2.1%)	(2.4%)	1.1%	12.3%	4.9%	(9.4%)	(3.0%)	1.0%	0.8%
# of Tests	1.4%	17.0%	6.0%	13.2%	10.2%	8.2%	(1.1%)	13.6%	10.4%	3.0%	3.0%	9.9%	55.0%	40.4%	30.9%	32.9%	58.1%	44.2%
# of Requisitions	2.7%	8.1%	7.9%	14.5%	6.4%	1.9%	(3.5%)	13.7%	11.5%	(0.0%)	3.0%	9.2%	51.2%	27.8%	25.6%	30.5%	52.1%	39.8%
<b>Year-over-Year Growth</b>																		
Average Revenue/Requisition	(0.5%)	23.6%	17.2%	13.7%	24.4%	14.1%	20.6%	10.8%	(2.4%)	(6.9%)	(10.5%)	(3.0%)						
Average Tests/Requisition	(14.0%)	4.7%	7.3%	3.1%	16.4%	7.1%	11.3%	13.0%	7.7%	4.5%	2.0%	2.7%						
Average Revenue/Test	15.2%	18.1%	9.1%	9.6%	7.3%	6.8%	8.3%	(1.7%)	(9.3%)	(11.0%)	(12.2%)	(5.6%)						
# of Tests	61.1%	76.4%	48.3%	42.4%	54.7%	43.1%	33.4%	34.0%	34.3%	27.8%	33.1%	28.8%						
# of Requisitions	75.3%	68.5%	38.0%	37.2%	42.1%	33.9%	19.8%	18.9%	24.7%	22.3%	30.6%	25.4%						
<b>INCOME STATEMENT</b>																		
Net Revenue	\$4,163	\$4,881	\$5,051	\$5,920	\$6,914	\$7,459	\$7,297	\$7,799	\$8,418	\$8,490	\$8,530	\$9,483	\$20,015	\$29,469	\$34,929	\$45,062	\$71,956	\$104,627
Cost of Services	1,858	2,184	2,535	2,776	3,091	3,384	3,672	4,107	4,344	4,575	4,521	5,026	9354	14255	18466	23432	35258	51267
Gross Profit	\$2,304	\$2,698	\$2,515	\$3,144	\$3,823	\$4,075	\$3,625	\$3,692	\$4,074	\$3,915	\$4,009	\$4,457	\$10,661	\$15,214	\$16,463	\$21,630	\$36,697	\$53,360
General & Administrative			1,832	1,018	2,341	2,215	2,458	3,044	2,902	2,769	2,815	2,845	\$2,850	\$10,058	11331	10815	16550	21972
Sales & Marketing	2,515	2,556	804	2,821	1,334	1,722	1,793	2,036	1,763	1,943	1,791	1,707	8695	6885	7204	8562	13672	19879
EBIT	(\$210)	\$142	(\$120)	(\$695)	\$148	\$138	(\$626)	(\$1,388)	(\$591)	(\$797)	(\$597)	(\$95)	(\$884)	(\$1,728)	(\$2,072)	\$2,253	\$6,476	\$11,509
Interest Expense	55	69	75	99	115	130	129	141	159	181	205	159	299	515	704	660	660	660
Non-recurring Expenses/(Gains)	-	-	-	200	-	-	-	-	-	-	0	0	200	0	0	0	0	0
Total Expenses	2,570	2,625	2,711	4,138	3,790	4,067	4,380	5,221	4,824	4,893	4,811	4,711	9,194	7,400	19,239	20,037	30,881	42,511
Net Income (GAAP)	(265)	72	(195)	(994)	33	8	(755)	(1,529)	(750)	(978)	(802)	(254)	(\$1,383)	(\$2,244)	(\$2,776)	\$1,593	\$5,816	\$10,849
Basic EPS (GAAP)	(\$0.01)	\$0.00	(\$0.01)	(\$0.03)	\$0.00	\$0.00	(\$0.02)	(\$0.04)	(\$0.02)	(\$0.03)	(\$0.02)	(\$0.01)	(\$0.04)	(\$0.06)	(\$0.07)	\$0.04	\$0.14	\$0.25
Basic shares	31,401	31,367	31,440	31,871	32,174	33,067	36,000	37,177	37,220	37,307	37,425	37,500	31,507	34,605	37,363	39,231	41,193	43,252
Diluted EPS (GAAP)	(\$0.01)	\$0.00	(\$0.01)	(\$0.03)	\$0.00	\$0.00	(\$0.02)	(\$0.04)	(\$0.02)	(\$0.03)	(\$0.02)	(\$0.01)	(\$0.04)	(\$0.06)	(\$0.07)	\$0.03	\$0.12	\$0.22
Diluted shares	31,401	38,244	31,440	31,871	35,630	38,486	36,000	37,177	37,220	37,307	37,425	37,500	33,239	36,823	37,363	48,600	48,700	48,800
Non-recurring Expenses	0	0	0	(933)	0	0	0	(500)	0	0	0	0	(933)	0	0	0	0	0
Net Income (Pro-Forma)	(\$265)	\$72	(\$195)	(\$61)	33	8	(755)	(1,029)	(750)	(978)	(802)	(254)	(\$450)	(\$2,244)	(\$2,776)	\$1,593	\$5,816	\$10,849
Diluted EPS (Pro-Forma)	(\$0.01)	\$0.00	(\$0.01)	(\$0.00)	\$0.00	\$0.00	(\$0.02)	(\$0.03)	(\$0.02)	(\$0.03)	(\$0.02)	(\$0.01)	(\$0.01)	(\$0.06)	(\$0.07)	\$0.03	\$0.12	\$0.22
Stock Compensation	49	76	105	49	78	123	143	96	128	225	200	134	279	440	616	862	1207	1449
DBA Expense	156	167	189	228	237	266	311	370	415	423	475	523	741	1,184	1,836	2,020	2,222	2,444
EBITDA	(\$5)	\$385	\$174	(\$418)	\$463	\$527	(\$172)	(\$922)	(\$48)	(\$149)	\$78	\$563	\$135	(\$104)	\$380	\$5,135	\$9,905	\$15,401
<b>Margin Analysis</b>																		
Cost of Services	45%	45%	50%	47%	45%	45%	50%	53%	52%	54%	53%	53%	47%	48%	53%	52%	49%	49%
Gross	55%	55%	50%	53%	55%	55%	50%	47%	48%	46%	47%	47%	53%	52%	47%	48%	51%	51%
General & Administrative	60%	52%	16%	48%	19%	23%	25%	26%	21%	23%	21%	18%	43%	23%	21%	19%	19%	19%
Sales & Marketing	NMF	1%	-4%	-17%	0%	0%	-10%	-20%	-9%	-12%	-9%	-3%	-7%	-8%	-8%	4%	8%	10%
Net																		
<b>Growth (sequential)</b>																		
Revenue	9.7%	17.3%	3.5%	17.2%	16.8%	7.9%	-2.2%	6.9%	7.9%	0.9%	0.5%	11.2%						
Cost of Sales	-2.1%	17.5%	16.1%	9.5%	11.3%	9.5%	8.5%	11.9%	5.8%	5.3%	-1.2%	11.2%						
General & Administrative																		
Sales & Marketing	-27.3%	1.7%	-68.6%	251.0%	-52.7%	29.1%	146.9%	13.6%	-13.4%	10.2%	-7.8%	-4.7%						
EBIT	NMF	NMF	NMF	NMF	NMF	NMF	NMF	NMF	NMF	NMF	NMF	NMF						
Net Income (proforma)	NMF	NMF	NMF	NMF	NMF	NMF	NMF	NMF	NMF	NMF	NMF	NMF						
EPS	NMF	NMF	NMF	NMF	NMF	NMF	NMF	NMF	NMF	NMF	NMF	NMF						
<b>Growth (y-o-y)</b>																		
Revenue	85.6%	108.2%	61.7%	56.0%	66.1%	52.8%	44.5%	31.7%	21.8%	13.8%	16.9%	21.6%	74.0%	47.2%	18.5%	29.0%	59.7%	45.4%
Cost of Sales	98.4%	87.3%	66.7%	46.2%	66.3%	55.0%	44.8%	47.9%	40.5%	35.2%	23.1%	22.4%	69.4%	52.4%	29.5%	26.9%	50.5%	45.4%
General & Administrative																		
Sales & Marketing	76.3%	24.1%	-63.1%	-18.4%	-46.9%	-32.6%	123.1%	-27.8%	32.2%	12.8%	-0.1%	-16.2%	-4.7%	-20.8%	4.6%	18.8%	59.7%	45.4%
EBIT	NMF	NMF	NMF	NMF	NMF	-2.3%	NMF	NMF	NMF	NMF	NMF	NMF	NMF	NMF	19.9%	-208.7%	187.4%	77.7%
Net Income (proforma)	NMF	NMF	NMF	NMF	NMF	-89.2%	NMF	NMF	NMF	NMF	NMF	NMF	NMF	NMF	23.7%	-157.4%	265.1%	86.5%
EPS	NMF	NMF	NMF	NMF	NMF	-89.3%	NMF	NMF	NMF	NMF	NMF	NMF	NMF	NMF	22.0%	-144.1%	264.3%	86.2%

Notes  
Revenues do not include prior period adjustments  
NOL carryforward of \$4.7 million on 12/31/07  
NMF - No Meaningful Figure



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## RISKS, RATINGS AND ANALYST CERTIFICATION

**Risks:** There are many risks associated with investing in micro-cap stocks. Following are comments regarding some of the risks inherent in an investment in NGNM:

Competition from larger and better capitalized companies.

Adverse regulatory developments including reduced reimbursement rates.

Industry shortage of highly trained genetic technologists.

### Distribution of Ratings and Recommendation History:

#### About Our Ratings:

Our ratings are divided into three classifications: Buy, Neutral and Sell. Our buy rating is divided into two sub-classifications to reflect the degree of undervaluation reflected in the current stock price. These sub-classifications include Accumulate and Strong Buy. Analysts may also elect to withhold or suspend a rating on a company or publish informational reports on a company without ratings, price targets or price ranges.

**Buy** – The current price of the company represents a substantial discount from the market. The company has strong fundamentals, an attractive valuation and should significantly outperform the Russell Micro Cap Index over the next 12 months.

**Accumulate** – The current price reflects a discount from the market over the next 12 months. The company has positive long-term prospects and should outperform the Russell Micro Cap Index over the next 12 months.

**Neutral** – The current price reflects a fair valuation relative to the company's peers and the broader market. The company's performance should be in-line with the Russell Micro Cap Index over the next 12 months.

**Sell** – The current price may represent overvaluation of the company's shares and an investment should produce below market returns. The company's fundamentals may be deteriorating and it should underperform the Russell Micro Cap Index over the next 12 months.

#### Distribution of Ratings:

	#	%
Buy	4	67
Accumulate	2	33
Neutral	0	0
Sell	0	0

#### NGNM Recommendation History:

Date	Rating	Price Target	Diluted EPS
April 03, 2006	Accumulate	\$0.60-\$0.70	\$0.05 for '07
May 12, 2006	Accumulate	\$0.60-\$0.70	\$0.05 for '07
July 31, 2006	Buy	\$0.90-\$1.05	\$0.05 for '07
Jan. 19, 2007	Buy	\$1.80-\$2.10	\$0.06 for '07
Aug. 15, 2008	Buy	\$2.20	\$0.11 for '09
Nov. 21, 2008	Buy	\$2.20	\$0.11 for '09
Mar. 18, 2009	Buy	\$2.08-\$2.38	\$0.05 for '10
May 08, 2009	Buy	\$2.08-\$2.38	\$0.00 for '10
Aug. 11, 2009	Buy	\$2.15-\$2.50	\$0.08 for '10
Dec. 01, 2009	Buy	\$2.15-\$2.50	\$0.06 for '10
Mar. 16, 2010	Buy	\$3.01	\$0.00 for '10
May 26, 2010	Buy	\$3.01	(\$0.05) for '10

#### Disclosures:

Analyst Certification: I, Puja Jain, hereby certify that all views expressed in this report accurately reflect my personal views about the company, and that no part of my compensation was or will be related to the views expressed in this report.