SATYAM COMPUTER SERVICES LTD
Form 20-F
April 28, 2005

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 20-F

o REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR 12(g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

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

OR

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934. For the transition period from __________ to __________

For the fiscal year ended March 31, 2005 **Commission file number 001-15190**

Satyam Computer Services Limited
(Exact Name of Registrant as Specified in Its Charter)

N/A	Republic of India
(Translation of Registrant s Name Into English)	(Jurisdiction of Incorporation or Organization)

Satyam Technology Center
Bahadurpallay Village
Qutbullapur Mandal, R.R. District- 500855
Hyderabad, Andhra Pradesh
India
(91) 40-5523 3505
(Address and Telephone Number of Principal Executive Offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act: None

Securities registered or to be registered pursuant to Section 12(g) of the Act:
American Depositary Shares, each represented by two Equity Shares, par value Rs.2 per share.
(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:
None
(Title of Class)

Indicate the number of outstanding shares of each of the issuer s classes of capital or common stock as of the close of the period covered by the annual report: 317,840,951 equity shares, including 34,016,154 underlying equity shares for 17,008,077 ADSs, were issued and outstanding as of March 31, 2005.

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

Yes þ No o

Indicate by check mark which financial statement item the registrant has elected to follow.

Item 17 o Item 18 þ

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SATYAM COMPUTER SERVICES LIMITED

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CURRENCY OF PRESENTATION AND CERTAIN DEFINED TERMS

Unless otherwise stated in this Annual Report or unless the context otherwise requires, references in this Annual Report on Form 20-F, or Annual Report , to we, our, us, Satyam and our company are to Satyam Computer Se Limited and its consolidated subsidiaries and other consolidated entities.

In this Annual Report, references to US , Dollars or the United States are to the United States of America, its territories and its possessions. References to India are to the Republic of India. References to $, Dollars or U.S. dolla are to the legal currency of the United States, and references to Rs., rupees or Indian rupees are to the legal currency of India. References to a particular fiscal year are to our fiscal year ended March 31 of such year.

For your convenience, this Annual Report contains translations of some Indian rupee amounts into U.S. dollars which should not be construed as a representation that those Indian rupee or U.S. dollar amounts could have been, or could be, converted into U.S. dollars or Indian rupees, as the case may be, at any particular rate, the rate stated below, or at all.

Except as otherwise stated in this Annual Report, all translations from Indian rupees to U.S. dollars contained in this Annual Report have been based on the noon buying rate in the City of New York on March 31, 2005 for cable transfers in Indian rupees as certified for customs purposes by the Federal Reserve Bank of New York. The noon buying rate on March 31, 2005 was Rs. 43.62 per $1.00.

Information contained in our websites, including our corporate website, www.satyam.com, is not part of this Annual Report.

FORWARD-LOOKING STATEMENTS MAY PROVE INACCURATE

IN ADDITION TO HISTORICAL INFORMATION, THIS ANNUAL REPORT CONTAINS FORWARD-LOOKING STATEMENTS WITHIN THE MEANING OF SECTION 27A OF THE SECURITIES ACT OF 1933, AS AMENDED, AND SECTION 21E OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED. THE FORWARD-LOOKING STATEMENTS CONTAINED HEREIN ARE SUBJECT TO RISKS AND UNCERTAINTIES THAT COULD CAUSE ACTUAL RESULTS TO DIFFER MATERIALLY FROM THOSE REFLECTED IN THE FORWARD-LOOKING STATEMENTS. FACTORS THAT MIGHT CAUSE SUCH A DIFFERENCE INCLUDE, BUT ARE NOT LIMITED TO, THOSE DISCUSSED IN THE SECTION ENTITLED ITEM 3. KEY INFORMATION RISK FACTORS , ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS AND ELSEWHERE IN THIS ANNUAL REPORT. YOU ARE CAUTIONED NOT TO PLACE UNDUE RELIANCE ON THESE FORWARD-LOOKING STATEMENTS, WHICH REFLECT MANAGEMENT S ANALYSIS ONLY AS OF THE DATE OF THIS ANNUAL REPORT. IN ADDITION, YOU SHOULD CAREFULLY REVIEW THE OTHER INFORMATION IN THIS ANNUAL REPORT AND IN OUR QUARTERLY REPORTS AND OTHER DOCUMENTS FILED WITH THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION, OR SEC, FROM TIME TO TIME. OUR FILINGS WITH THE SEC ARE AVAILABLE ON ITS WEBSITE, WWW.SEC.GOV.

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PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

Selected Financial Data

You should read the following selected consolidated historical financial data in conjunction with our financial statements and the related notes and Item 5. Operating and Financial Review and Prospects included elsewhere in this Annual Report. The statement of operations data for the five years ended March 31, 2005 and the balance sheet data as of March 31, 2005, 2004, 2003, 2002 and 2001 are derived from our consolidated audited financial statements including the notes, which have been prepared and presented in accordance with U.S. GAAP. The statement of operations data for the three years ended March 31, 2003 and the balance sheet data as of March 31, 2003, 2002 and 2001 presented below is as restated to give effect to the restatement of shareholders equity and net income described below. As of December 9, 2002, we ceased to hold a controlling interest in Sify Limited, or Sify, and subsequently changed the method of accounting for our interest in Sify from the consolidated accounting method to the equity method. Consequently, financial data as of March 31, 2005, 2004 and 2003 and for the year ended March 31, 2005 and 2004 reflect our interest in Sify accounted for under the equity method and are not comparable to the financial data as of March 31, 2002 and 2001 and for the years ended March 31, 2003, 2002 and 2001 which reflect our interest in Sify accounted for on a consolidated basis.

	Year Ended March 31,				
	2005	**2004**	**2003**	**2002**	**2001**
	(dollars in thousands, except per share and per ADS data, or as stated otherwise)				
Statement of operations data					
Revenues:					
IT services	$ 786,684	$ 565,028	$ 458,336	$ 413,906	$ 310,307
BPO	6,913	1,293			
Software products		51	871	585	
Total revenues	793,597	566,372	459,207	414,491	310,307
Cost of revenues[1]	(506,776)	(343,596)	(275,219)	(240,304)	(208,121)
Gross profit	286,821	222,776	183,988	174,187	102,186
Operating expenses:					
Selling, general and administrative expenses[2]	(124,325)	(101,627)	(116,893)	(139,588)	(124,100)

Amortization of goodwill				(16,997)	(24,728)
Impairment of goodwill				(81,115)	
Impairment of other non-marketable investments			(3,299)		
Reversal of put option charge			19,843		
Total operating expenses	(124,325)	(101,627)	(100,349)	(237,700)	(148,828)
Operating income/(loss)	162,496	121,149	83,639	(63,513)	(46,642)
Interest income	22,339	20,309	7,158	3,806	5,732
Interest expense	(458)	(471)	(800)	(2,856)	(9,632)
Gain on sale of shares in associated companies/ other investments	66	2,652	830	45,594	
Gain/(loss) on foreign exchange transactions	(4,611)	(8,874)	(4,757)	10,813	5,816
Other income/(expenses), net	326	2,270	(1,746)	1,277	646
Income/(loss) before income taxes, minority interest and equity in earnings/ (loss) of associated companies	180,158	137,035	84,324	(4,879)	(44,080)
Income taxes	(25,304)	(22,544)	(9,769)	(769)	2,346
Minority interest			11,082	73,406	25,772
Income before equity in earnings/(losses) of associated companies	154,854	114,491	85,637	67,758	(15,962)
Equity in earnings/ (losses) of associated companies, net of taxes	(1,094)	(2,631)	(3,339)	(25,401)	(5,467)
Net income (loss)	$ 153,760	$ 111,860	$ 82,298	$ 42,357	($21,429)
Earnings (loss) per share:					
Basic	$ 0.49	$ 0.36	$ 0.26	$ 0.14	($0.08)
Diluted	0.48	0.35	0.26	0.14	(0.08)
Earnings (loss) per ADS:					
Basic	0.98	0.71	0.53	0.28	(0.16)
Diluted	0.96	0.71	0.52	0.28	(0.16)
Weighted average equity shares used in computing earnings per shares (in thousands):					
Basic	316,184	313,155	311,797	305,751	269,943
Diluted	323,569	317,057	318,658	307,113	269,943
Weighted average equity shares used in computing earnings per ADS:					
Basic	158,092	156,578	155,899	152,875	134,972
Diluted	161,785	158,529	159,329	153,556	134,972
Cash dividend per equity share	0.12	0.08	0.03	0.02	0.02
Cash dividend per ADS	0.24	0.17	0.06	0.02	

(1) Inclusive of stock-based compensation expense of $775 thousand, $853 thousand, $1,591 thousand, $7,212 thousand and $31,336 thousand in fiscal 2005, 2004, 2003, 2002 and 2001 respectively.

(2) Inclusive of stock-based compensation expense of $1,193 thousand, $772 thousand, $2,930 thousand, $3,582 thousand and $14,782 thousand in fiscal 2005, 2004, 2003, 2002 and 2001 respectively.

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	As at March 31				
	2005	2004	2003	2002	2001
	(dollars in thousands)				
Balance sheet data					
Cash and cash equivalents	$ 129,815	$ 86,730	$ 62,202	$ 243,454	$ 66,068
Investments in bank deposits	411,623	332,133	259,359		
Total assets	884,126	713,768	561,694	515,502	481,099
Total long-term debt, excluding current portion	1,137	1,826	1,738	2,712	9,625
Preferred stock of subsidiary	20,000	10,000			
Total shareholders equity	767,924	633,889	487,716	394,364	202,752
Capital stock[1]	449,495	431,654	421,567	419,076	257,597

[1] Includes common stock and additional paid-in capital but excludes shares held by Satyam Associate Trust.

SFAS 142 pro forma disclosure

Effective April 1, 2002, Satyam adopted Statement of Financial Accounting Standards No. 142 (SFAS 142), *Goodwill and Other Intangible Assets.* Due to the adoption of SFAS 142, Satyam ceased amortizing goodwill. The effect of this accounting change is reflected prospectively. The following pro forma disclosure presents the impact of SFAS 142 on net income/(loss), net income/(loss) per share, and the related tax effect had the standard been in effect for the years ended March 31, 2002 and 2001:

	Year Ended March 31	
	2002	2001
	(dollars in thousands except per share amounts)	
Reported net income/(loss)	$ 42,357	$ (21,429)
Add:		
Goodwill amortization	16,997	24,728
Amortization of excess of cost of investment over equity in net assets of associated companies	3,639	4,402
Adjusted net income	$ 62,993	$ 7,701
Basic and diluted earnings per share:		
As reported	$ 0.14	$ (0.08)
As adjusted	0.21	0.03

Risk Factors

Any investment in our ADSs involves a high degree of risk. You should carefully consider the following information about these risks, together with the other information contained in this Annual Report, before you decide to buy our ADSs. If any of the following risks actually occur, our company could be seriously harmed. In any such case, the market price of our ADSs could decline, and you may lose all or part of the money you paid to buy our ADSs.

Risks Related to Our Overall Operations

Our revenues and profitability are difficult to predict and can vary significantly from period to period which could cause our share price to decline significantly.

Our revenues and profitability have grown rapidly in recent years and may fluctuate significantly in the future from period to period. Therefore, we believe that period-to-period comparisons of our results of operations are not necessarily meaningful and should not be relied upon as an indication of our future performance. The quarterly fluctuation of revenues is primarily because we derive our revenues from fees for services generated on a project-by-project basis. Our projects vary in size, scope and duration. For example, we have some projects that employ several people for only a few weeks and we have other projects that employ over 100 people for six months or more. A customer that accounts for a significant portion of our revenue in a particular period may not account for a similar portion of our revenue in future periods. In addition, customers may cancel contracts or defer projects at any time for a number of different reasons. Furthermore, increasing wage pressures, employee attrition, pressure on billing rates, the time and expense needed to train and productively utilize new employees and changes in the proportion of services rendered offshore can affect our profitability in any period. There are also a number of factors, other than our performance, that are not within our control that could cause fluctuations in our operating results from period to period. These include (i) the duration of tax holidays or tax exemptions and the availability of other Government of India incentives; (ii) currency fluctuations, particularly when the rupee appreciates in value against the U.S. dollar, since the majority of our revenues are in U.S. dollars and a significant part of our costs are in rupees; and (iii) other general economic and political factors. As a result, our revenues and our operating results in a particular period are difficult to predict, may decline in comparison to corresponding prior periods regardless of the strength of our business. If this were to occur, the share price of our equity shares and our ADSs would likely decline significantly.

Any inability to manage our rapid growth could disrupt our business and reduce our profitability.

We have experienced significant growth in recent periods. In fiscal 2005 our total revenues increased by 40.1% as compared to fiscal 2004, and in fiscal 2004 our total revenues increased by 23.3% as compared to fiscal 2003. As of March 31, 2005, we had 20,690 employees (including employees of Nipuna), whom we refer to as associates, worldwide as compared to 14,456 associates as of March 31, 2004. In addition, we are continuing our geographical expansion. We have five offshore facilities in India and 15 overseas facilities located in Australia, Canada, China, Hungary, Japan, Malaysia, Singapore, United Arab Emirates, United Kingdom and United States. In addition, we have 17 sales and marketing offices located in Canada, Germany, Italy, the Netherlands, Spain, Sweden, United Kingdom and United States and 14 sales and marketing offices located in the rest of the world.

We expect our growth to place significant demands on our management and other resources and to require us to continue to develop and improve our operational, financial and other internal controls, both in India and elsewhere. In particular, continued growth increases the challenges involved in:

- recruiting and retaining sufficiently skilled technical, marketing and management personnel;
- providing adequate training and supervision to maintain our high quality standards;
- preserving our culture and values and our entrepreneurial environment; and
- developing and improving our internal administrative infrastructure, particularly our financial, operational, communications and other internal systems.

Our inability to manage our growth effectively could disrupt our business and reduce our profitability.

The current economic environment, pricing pressure and rising wages in India have negatively impacted our revenues and operating results.

Spending on IT in most parts of the world has recently increased after a two-year decreasing trend due to a challenging global economic environment. We do experience pricing pressures from our customers, which can negatively impact our operating results. If economic growth slows, our utilization and billing rates for our associates could be adversely affected which may result in lower gross and operating profits.

Wage costs in India, including in the IT services industry, have historically been significantly lower than wage costs in the United States and Europe for comparably skilled professionals, which has been one of our competitive advantages. However, large companies are establishing offshore operations in India, resulting in wage pressures for Indian companies, which may prevent us from sustaining this competitive advantage and may negatively affect our profit margins. Wages in India are increasing at a faster rate than in the United States, which could result in increased cost of IT professionals, particularly project managers and other mid-level professionals. In addition, India has shown the highest average wage increases in the Asia-Pacific region in 2004, particularly in the technology sector. We may need to increase the levels of our employee compensation more rapidly than in the past to remain competitive with other employers, or seek to recruit in other low labor cost jurisdictions to keep our wage costs low. Compensation increases may result in a material adverse effect on our financial performance.

Our business will suffer if we fail to anticipate and develop new services and enhance existing services in order to keep pace with rapid changes in technology and the industries on which we focus.

The IT services market is characterized by rapid technological change, evolving industry standards, changing customer preferences and new product and service introductions. Our future success will depend on our ability to anticipate these advances and develop new product and service offerings to meet customer needs and complement our offerings of end-to-end IT services. For example, we have invested significant resources in research and development efforts, such as in our enterprise business solution laboratory and grid computing laboratory, in order to continually develop capabilities to provide new services to our customers. Should we fail to develop such capabilities on a timely basis to keep pace with the rapidly changing IT market or if the services or technologies that we develop are not successful in the marketplace, our business and profitability will suffer and it is unlikely that we would be able to recover our research and development costs. Moreover, products, services or technologies that are developed by our competitors may render our services non-competitive or obsolete.

Our revenues are highly dependent on customers primarily located in the United States and customers concentrated in certain industries, and economic slowdowns or factors that affect the economic health of the United States and our customers industries may affect our business.

In fiscal 2005, 2004 and 2003, approximately 68.3%, 73.3% and 73.2%, respectively, of our total revenues were derived from the United States. For the same periods, we earned 29.2%, 32.0% and 33.0% of our IT revenues from the manufacturing industry and 17.8%, 18.3% and 21.3%, of our IT revenues from the banking and finance industry respectively. If the current economic recovery in the United States does not continue, our customers may reduce or postpone their technology spending significantly, which may in turn lower the demand for our services and negatively affect our revenues and profitability. Further, any significant decrease in the growth of the manufacturing or banking and finance industries, or significant consolidation in these industries, or other industry segments on which we focus, may reduce the demand for our services and negatively affect our revenues and profitability.

Recently, some countries and organizations have expressed concerns about a perceived association between offshore outsourcing and the loss of jobs. In the United States, in particular, there has been increasing political and media attention on these issues following the growth of offshore outsourcing. Any changes in existing laws or the enactment of new legislation restricting offshore outsourcing may adversely impact our ability to do business in the United States, which is the largest market for our services. In the last two years, some U.S. states have proposed legislation restricting government agencies from outsourcing their back office processes and IT solutions work to companies outside the United States or have enacted laws that limit or discourage such outsourcing. Such laws restrict our ability to do business with U.S. government- related entities. It is also possible that U.S. private sector companies working with these governmental entities may be restricted from outsourcing projects related to government contracts or may face disincentives if they outsource certain projects. Any of these events could adversely affect our revenues and profitability.

We face intense competition in the IT services and BPO markets which could prevent us from attracting and retaining customers and could reduce our revenues.

The markets for IT services and BPO are rapidly evolving and highly competitive, and we expect that competition will continue to intensify. We face competition in India and elsewhere from a number of companies, including:

- consulting firms such as Accenture, BearingPoint, Capgemini and Deloitte Consulting;
- divisions of large multinational technology firms such as Hewlett-Packard and IBM;
- IT outsourcing firms such as Computer Sciences Corporation, Electronic Data Systems and IBM Global Services; and
- offshore IT services firms such as Infosys Technologies Limited, Tata Consultancy Services Limited and Wipro Limited.

We also compete with software firms such as Oracle and SAP, service groups of computer equipment companies, in-house IT departments of large corporations, programming companies and temporary staffing firms. Nipuna, through which we provide BPO services, faces competition from firms like Progeon Limited and Wipro BPO, formerly known as Wipro Spectramind.

In addition, we have agreed not to compete with Nipuna as part of the investor rights and securities subscription agreements which we have entered into with Nipuna s two other investors. Pursuant to these agreements, we and our affiliates are restricted from engaging in activities that are or could directly or indirectly be competitive with the business of Nipuna. Such activities include among others providing BPO, soliciting existing or prospective customers of Nipuna to obtain the services offered by Nipuna from other service providers and investing in companies engaged in the same or similar business as Nipuna. These non-compete restrictions apply until the investors redeem all of their preference shares in Nipuna or their equity interest in Nipuna falls below 5% after an initial public offering. As a consequence, we currently offer and plan to continue to offer BPO services only through Nipuna. We cannot assure you that these non-compete restrictions will not adversely affect our ability to attract and retain customers in this competitive market or that they will not adversely affect our revenues. See Business BPO Services and Nipuna.

A significant part of our competitive advantage has historically been the cost advantage relative to service providers in the United States and Europe. Since wage costs in this industry in India are presently increasing at a faster rate than those in the United States and Europe, our ability to compete effectively will become increasingly dependent on our reputation, the quality of our services and our expertise in specific markets. Many of our competitors have significantly greater financial, technical and marketing resources and generate greater revenues than us, and we cannot assure you that we will be able to compete successfully with such competitors and will not lose existing customers to such competitors. We believe that our ability to compete also depends in part on a number of factors outside our control, including the ability of our competitors to attract, train, motivate and retain highly skilled technical associates, the price at which our competitors offer comparable services and the extent of our competitors responsiveness to customer needs.

Our revenues are highly dependent upon a small number of customers.

We derive a significant portion of our revenues from a limited number of corporate customers. In fiscal 2005, 2004 and 2003, our largest customer together with its affiliates, accounted for 10.8%, 14.3% and 16.1%, respectively, of our total revenues. In fiscal 2005, 2004 and 2003, our second largest customer accounted for 7.4%, 9.9% and 8.7%, respectively, of our total revenues. In fiscal 2005, 2004 and 2003, our five largest customers accounted for 29.2%, 36.4% and 38.4%, respectively, of our total revenues. The volume of work performed for specific customers is likely to vary from year to year, particularly since we are usually not the exclusive outside service provider for our customers.

There are a number of factors other than our performance that could cause the loss of a customer and that may not be predictable. In certain cases, we have significantly reduced the services provided to a customer when the customer either changed its outsourcing strategy by moving more work in-house or replaced its existing software with packaged software supported by the licensor. Some customers could also potentially develop competing offshore IT centers in India and as a result, work that may otherwise be outsourced to us may instead be performed in-house. Reduced technology spending in response to a challenging economic or competitive environment may also result in lower revenues or loss of a customer. If we lose one of our major customers or one of our major customers significantly reduces its volume of business with us, our revenues and profitability could be reduced.

Our fixed-price contracts expose us to additional risks, many of which are beyond our control, which may reduce the profitability of these contracts.

As a core element of our business strategy, we offer a portion of our services on a fixed-price basis, along-with a time-and-materials basis. In fiscal 2005, 2004 and 2003, we derived 34.2%, 31.7% and 27.5%, respectively, of our IT services revenues from fixed-price contracts. Although we use our software engineering processes and past project experience to reduce the risks associated with estimating, planning and performing fixed-price projects, we bear the risk of cost overruns, completion delays and wage inflation in connection with these projects. We may also have to pay damages to our customers for completion delays. Many of these project risks may be beyond our control. Our failure to accurately estimate the resources and time required for a project, future wage inflation and currency exchange rates, or our failure to complete our contractual obligations within the time frame committed could reduce the profitability of our fixed-price contracts.

Our customers may terminate projects before completion or choose not to renew contracts, many of which are terminable at will, which could adversely affect our profitability.

Our contracts with customers do not commit our customers to provide us with a specific volume of business and can typically be terminated by our customers with or without cause, with little or no advance notice and without penalty. Any failure to meet a customer s expectations could result in a cancellation or non-renewal of a contract. Additionally, our contracts with customers are typically limited to a specific project and not any future work. A number of our multi-year contracts are due for renewal in the coming fiscal year, and we cannot assure you that our customers will choose to renew such contracts for a similar or longer duration, on terms as favorable as their current terms or at all. Other than our performance, there are also a number of factors not within our control that could cause the loss of a customer. Our customers may demand price reductions, change their outsourcing strategy by moving more work in-house or to one of our competitors, or replace their existing software with packaged software supported by licensors, any of which could reduce our revenue and profitability.

A number of our customer contracts are conditioned upon our performance, which, if unsatisfactory, could result in less revenues than previously anticipated.

We are considering the viability of introducing performance-based or variable-pricing contracts. Should we increase our use of value-based pricing terms, it will become more difficult for us to predict the revenues we will receive from our customer contracts, as such contracts would likely contain a higher number of contingent terms for payment of our fees by our customers. Our failure to meet contract goals or a customer s expectations in such performance-based contracts may result in lower revenues, and a less profitable or an unprofitable engagement.

Some of our multi-year customer contracts contain certain provisions which, if triggered, could result in lower future revenues and profitability under the contract.

Some of our multi-year customer contracts contain benchmarking provisions, most favored customer clause and/or provisions restricting personnel from working on projects of our customers competitors. Benchmarking provisions allow a customer in certain circumstances to request a benchmark study prepared by an agreed upon third-party comparing our pricing, performance and efficiency gains for delivered contract services with that of an agreed list of other service providers for comparable services. Based on the results of the benchmarking study and depending on the reasons for any unfavorable variance, we may be required to make improvements in the services we provide or to reduce the pricing for services to be performed under the balance term of the contract, which may result in lower future revenues and profitability under the contract.

Most favored customer clauses generally provide that if, during the term of the contract, we were to offer similar services to any other customers on terms and conditions more favorable than those provided in such contract, we would be obligated to offer equally favorable terms and conditions to the customer. As pricing pressures increase, some customers may demand price reductions or other pricing incentives. Any pricing reduction agreed to in a subsequent contract may require us to offer equally favorable terms to other customers with whom we have a most favored contract under the remaining term of contracts with those customers which may result in lower future revenues and profitability.

A number of our customer contracts provide that, during the term of the contract and for a certain period thereafter ranging from six to twelve months, we may not provide similar services to any of their competitors using the same personnel. This restriction may hamper our ability to compete for and provide services to customers in the same industry, which may result in lower future revenues and profitability.

We may be unable to attract skilled professionals in the competitive labor market.

Our ability to execute projects and to obtain new customers depends largely on our ability to attract, train, motivate and retain highly skilled technical associates, particularly project managers, project leaders and other senior technical personnel. We believe that there is significant competition for technical associates who possess the skills needed to perform the services that we offer. An inability to hire and retain additional qualified personnel will impair our ability to bid for or obtain new projects and to continue to expand our business. Also, we cannot assure you that we will be able to assimilate and manage new technical associates effectively. In fiscal 2005, 2004 and 2003, we experienced associate attrition in the IT services segment at a rate of 16.5%, 17.5% and 15.6%, respectively. Any increase in our attrition rates, particularly the attrition rate of experienced software engineers, project managers and project leaders, could harm our growth strategy. We cannot assure you that we will be successful in recruiting and retaining a sufficient number of replacement technical associates with the requisite skills to replace those technical associates who leave. Further, we cannot assure you that we will be able to redeploy and retrain our technical associates to keep pace with continuing changes in evolving technologies and changing customer preferences. Should we be unable to successfully recruit, retain, redeploy or retrain our technical associates, we may become less attractive to potential customers and may fail to satisfy the demands of existing customers, which would result in a decrease in revenues and profitability.

We dedicate significant resources to develop international operations which may be more difficult to manage and operate.

In addition to our offshore IT centers in India, we have established IT centers in Australia, Canada, China, Hungary, Japan, Malaysia, Singapore, United Arab Emirates, United Kingdom and United States and plan to open additional international facilities. Because of our limited experience in managing and operating facilities outside of India, we are subject to additional risks related to our international expansion strategy, including risks related to complying with a wide variety of national and local laws, restrictions on the import and export of certain technologies and multiple and possibly overlapping tax structures. In addition, we may face competition in other countries from companies that may have more experience with local conditions or with international operations generally. We may also face difficulties integrating new facilities in different countries into our existing operations, as well as integrating employees that we hire in different countries into our existing corporate culture.

We are investing substantial cash assets in new facilities and physical infrastructure and our profitability could be reduced if our business does not grow proportionately.

As of March 31, 2005 we had contractual commitments of approximately $8.8 million for capital expenditures, and we estimate spending a further $50 million until March 2006. We may encounter cost overruns or project delays in connection with new facilities. These expansions will significantly increase our fixed costs. If we are unable to grow our business and revenues proportionately, our profitability will be reduced.

Restrictions on immigration may affect our ability to compete for and provide services to customers in the United States and in other countries, which could hamper our growth and cause our revenues to decline.

The vast majority of our employees are Indian nationals. Most of our projects require a portion of the work to be completed at the customer s location which is typically outside India. The ability of our associates to work in the

United States, Europe and in other countries outside India depends on the ability to obtain the necessary visas and work permits. As of March 31, 2005, the majority of our associates located outside India were in the United States and held either H-1B visas, allowing the employee to remain in the United States during the term of the work permit and work as long as he or she remains an employee of the sponsoring firm, or L-1 visas, allowing the employee to stay in the United States only temporarily. Although there is no limit to new L-1 visas, there is a limit to the aggregate number of new H-1B visas that the U.S. Citizenship and Immigration Services, or CIS, may approve in any government fiscal year. In 2000, the United States temporarily increased the annual limit for H-1B visas to 195,000; however, this increase expired in 2003 and the limit was returned to 65,000 annually. Further, in response to the terrorist attacks in the United States, the CIS has increased its level of scrutiny in granting new visas. This may, in the future, also lead to limits on the number of L-1 visas granted. For example, the recent 2005 Appropriations Bill further precludes foreign companies from obtaining L-1 visas for employees with specialized knowledge: (1) if such employees will be stationed primarily at the worksite of another company in the U.S. and the employee will not be controlled and supervised by his employer, or (2) if the placement is essentially an arrangement to provide labor for hire rather than in connection with the employee s specialized knowledge. Immigration laws in the United States may also require us to meet certain levels of compensation and to comply with other legal requirements including labor certifications as a condition to obtaining or maintaining work visas for our associates working in the United States. The CIS announced on October 1, 2004 that it had received on the first day of the new government fiscal year sufficient applications to fill up all 65,000 visas that were available for the year. In November 2004, the United States Congress passed a measure that would increase the number of available H-1B visas for 2004 to 85,000. This legislation, when effective, is expected to increase the H1-B visa quota by approximately 20,000 visas but these visas would only be available to skilled workers who possess a Master s or higher degree from educational institutions in the United States. The increase is expected to be fully utilized and may not be extended to future years.

Immigration laws in the United States and in other countries are subject to legislative change, as well as to variations in standards of application and enforcement due to political forces and economic conditions. It is difficult to predict the political and economic events that could affect immigration laws, or the restrictive impact they could have on obtaining or monitoring work visas for our employees. Our reliance on work visas for a significant number of employees makes us particularly vulnerable to such changes and variations as it affects our ability to staff projects with associates who are not citizens of the country where the work is to be performed. As a result, we may not be able to obtain a sufficient number of visas for our employees or may encounter delays or additional costs in obtaining or maintaining the condition of such visas.

We may engage in acquisitions, strategic investments, strategic partnerships or alliances or other ventures that may or may not be successful.

We may acquire or make strategic investments in complementary businesses, technologies, services or products, or enter into strategic partnerships or alliances with third parties in order to enhance our business. For example, we have recently announced a proposed strategic acquisition of Citisoft, plc. (see Item 4. Information on the Company Business Overview). It is possible that we may not be able to identify suitable acquisitions targets and candidates for strategic investments or partnerships, or if we do identify such targets or candidates, we may not be able to complete those transactions on terms commercially acceptable to us, or at all. The inability to identify suitable acquisition targets or investments or the inability to complete such transactions may affect our competitiveness and our growth prospects.

If we acquire a company, we could have difficulty in assimilating that company s personnel, operations, technology and software. In addition, the key personnel of the acquired company may decide not to work for us. In some cases, we could have difficulty in integrating the acquired products, services or technologies into our operations. These difficulties could disrupt our ongoing business, distract our management and employees and increase our expenses.

Other than the proposed Citisoft plc acquisition referred to above, as of the date of this document, we have no agreements or understanding to enter into any material acquisition, investment, partnership, joint venture or alliance.

We may make strategic investments in early-stage technology start-up companies in order to gain experience in or exploit niche technologies. However, our investments may not be successful. The lack of profitability of any of our investments could have a material adverse effect on our operating results.

System failure could disrupt our business.

To deliver our services to our customers, we must maintain a high speed network of satellite, fiber optic and land lines and an active voice and data communications 24 hours a day between our main offices in Hyderabad, our other IT centers in India and globally and the offices of our customers worldwide. Any systems failure or a significant lapse in our ability to transmit voice and data through satellite and telephone communications could result in lost customers and curtailed operations which would reduce our revenue and profitability.

We may be liable to our customers for damages caused by disclosure of confidential information or system failure.

We are often required to collect and store sensitive or confidential customer and consumer data. Many of our customer agreements do not limit our potential liability for breaches of confidentiality. If any person, including any of our employees, penetrates our network security or misappropriates sensitive data, we could be subject to significant liability from our customers or from our customers clients for breaching contractual confidentiality provisions or privacy laws. Unauthorized disclosure of sensitive or confidential customer and consumer data, whether through breach of our computer systems, system failure or otherwise, could damage our reputation and cause us to lose customers. Many of our contracts involve projects that are critical to the operations of our customers businesses and provide benefits which may be difficult to quantify. Any failure in a customer s system or breaches of security could result in a claim for substantial damages against us, regardless of our alleged responsibility for such failure. Generally, we attempt to limit our contractual liability for consequential damages in rendering our services, however these limitations on liability may be unenforceable in some cases, or may be insufficient to protect us from liability for damages. In respect of some of our contracts, we sub-contract a part of the work to certain sub-contractors. We are liable to our customers for any breach or non-performance by our sub-contractors under the sub-contracts. We maintain general liability insurance coverage, including coverage for errors and omissions, however this coverage may not continue to be available on reasonable terms and may be unavailable in sufficient amounts to cover one or more large claims. Further, an insurer might disclaim coverage as to any future claim. A successful assertion of one or more large claims against us that exceeds our available insurance coverage or results in changes in our insurance policies, including premium increases or the imposition of a large deductible or co-insurance requirement, could adversely affect our operating results and profitability.

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Our success depends in large part upon our management team and key personnel and our ability to attract and retain them.

We are highly dependent on the senior members of our management team. Our future performance will be affected by any disruptions in the continued service of these persons. We do not maintain key man life insurance for any of the senior members of our management team or other key personnel, except for our chief executive officer. Competition for senior management in our industry is intense, and we may not be able to retain such senior management personnel or attract and retain new senior management personnel in the future. The loss of any member of our senior management team or other key personnel may have a material adverse effect on our business, results of operations and financial condition.

Our insiders are significant shareholders, are able to control the election of our board and may have interests which conflict with those of our shareholders or holders of our ADSs.

Our executive officers and directors, together with members of their immediate families, beneficially owned, in the aggregate approximately 9.4% of our outstanding equity shares as of March 31, 2005. As a result, acting together, this group has the ability to exercise significant control over most matters requiring our shareholders approval, including the election and removal of directors and significant corporate transactions. These insider shareholders may exercise control even if they are opposed by our other shareholders. Without the consent of these insider shareholders, we could be delayed or prevented from entering into transactions (including the acquisition of our company by third parties) that may be viewed as beneficial to the Company and all of the shareholders.

Our financial results are impacted by the financial results of entities that we do not control.

As of March 31, 2005, we have a significant, non-controlling interests in Sify, Satyam Venture Engineering Services Private Limited, or Satyam Venture, and CA Satyam ASP Private Limited, or CA Satyam, that are accounted for under U.S. GAAP using the equity method of accounting. Under this method, we are obligated to report as Equity in earnings (losses) of associated companies, net of taxes a pro-rata portion of the financial results of any such company in our statement of operations even though we do not control such company but have the ability to exercise certain influence over their operating and financial policies. Thus, our reported results of operations can be significantly higher or lower depending on the results of Sify, Satyam Venture and CA Satyam or other companies in which we may make similar investments even though we may have only a limited ability to influence their activities. We may also be required to record additional impairment charges in their carrying value if we deem the investment to be impaired due to adverse events, many of which are outside of our control, on their business, results of operations and financial condition in future periods. Currently, we make estimates in the preparation of financial statements including the utility of goodwill. Changes in such estimates resulting from events, many of which are outside of our control, may result in the impairment of goodwill which would negatively impact our net income under U.S. GAAP. Such impact on net income may result in a reduction of the market value of our shares. Our financial statements do not reflect any amortization of goodwill in fiscal 2005, 2004, and 2003, respectively.

The value of our interest in Sify and our subsidiaries may decline.

As of March 31, 2005, we held 11,182,600 equity shares of Sify, representing 31.6% of its outstanding shares. Sify s ADSs are listed for trading on the Nasdaq National Market under the symbol SIFY ; however, we do not know whether Sify will be able to retain this listing in the future. The market price of Sify s ADSs has been highly volatile, ranging from a high of $452 per ADS to a low of $0.88 per ADS from its initial public offering in October 1999 through March 31, 2005, and may continue to fluctuate widely. Any decline in the market price of Sify s ADSs is likely to cause the value of the equity shares of Sify which we hold to decline. We hold our interest in Sify in the form of equity shares for which there is no market and our ability to convert these equity shares into ADSs is restricted.

Under a shareholders agreement to which we are a party, mergers, acquisitions and sales of substantially all the assets of Sify require the approval of two other Sify shareholders, Softbank Asia Infrastructure Fund, or SAIF, and VentureTech Solutions Private Ltd., or VentureTech. Sify has not been profitable since its incorporation and may continue to incur significant losses and negative cash flows in the future. In addition, our Nipuna subsidiary has experienced losses during each year since its inception and it is likely that it will continue to experience such losses in the future.

Stock- based compensation expenses may significantly reduce our net income under U.S. GAAP.

Although Satyam has suspended, except in certain cases, all new grants of stock options as of October 1, 2004, our reported income under U.S. GAAP has been and will continue to be affected by the grant of warrants or options under our various employee benefit plans. Under the terms of our existing plans, some of which have outstanding obligations to grant options in future, employees are typically granted warrants or options to purchase equity shares at a substantial discount to the current market value. These grants require us to record non-cash compensation expenses under currently applicable U.S. GAAP, amortized over the vesting period of the warrants or options. Depending on the market value or fair value of our equity shares on the dates the outstanding grants were made and future grants are made, amortization of deferred stock-based compensation may contribute to reducing our operating income and net income under U.S. GAAP. Our subsidiaries and associated companies also have stock option schemes which have and will continue to generate stock-based compensation expenses and have and will reduce our operating income and net income.

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Our earnings will be adversely affected once we change our accounting policies with respect to the expensing of stock options.

Currently we account for share-based compensation transactions using the intrinsic value method as prescribed by Accounting Principles Board, or APB, Opinion No. 25, *Accounting for Stock Issued to Employees,* and have adopted the pro forma disclosure provisions of the Statement of Financial Accounting Standard, or SFAS No. 123*, Accounting for Stock-Based Compensation.* On December 16, 2004, the FASB issued FAS 123R, *Share-Based Payment, an amendment of FASB Statements No. 123 and 95*, which requires that such transactions be accounted for using a fair-value-based method and recognized as expenses in our consolidated statement of operations. As of the required effective date, the standard requires that the modified prospective method be used, which requires that the fair value of new awards granted from the beginning of the year of adoption (plus unvested awards at the date of adoption) be expensed over the vesting period. In addition, the statement encourages the use of the binomial approach to value stock options, which differs from the Black-Scholes option pricing model that we currently use in the footnotes to our consolidated financial statements. Many companies have or are in the process of changing their accounting policies to expense the fair value of stock options. This change in the accounting policy with respect to the treatment of employee stock option grants will adversely affect our earnings and will have a significant impact on our consolidated statement of operations as we will be required to expense the fair value of our stock option grants rather than expensing the intrinsic value of stock options as is our current practice. FAS 123R will be applicable to Satyam for annual periods beginning after June 15, 2005 and currently we have not determined which transition method we will use and have not estimated the likely impact that FAS 123R will have on our results of operations.

Compliance with new and changing corporate governance and public disclosure requirements adds uncertainty to our compliance policies and increases our costs of compliance.

Changing laws, regulations and standards relating to accounting, corporate governance and public disclosure, including the Sarbanes-Oxley Act of 2002, new U.S. Securities and Exchange Commission, or SEC, regulations, the NYSE, rules, Securities and Exchange Board of India, or SEBI, rules, and Indian stock market listing regulations are creating uncertainty for companies like ours. These new or changed laws, regulations and standards may lack specificity and are subject to varying interpretations. Their application in practice may evolve over time, as new guidance is provided by regulatory and governing bodies. This could result in continuing uncertainty regarding compliance matters and higher costs of compliance as a result of ongoing revisions to such corporate governance standards.

In particular, our efforts to comply with Section 404 of the Sarbanes-Oxley Act of 2002 and the related regulations regarding our required assessment of our internal controls over financial reporting and our external auditors audit of that assessment requires the commitment of significant financial and managerial resources. We consistently assess the adequacy of our internal controls over financial reporting, remediate any control deficiencies that may be identified, and validate through testing that our controls are functioning as documented. While we do not anticipate any material weaknesses or significant deficiencies, our independent auditors may be unable to issue unqualified attestation reports on management s assessment on the operating effectiveness of our internal controls over financial reporting.

Additionally, under revised corporate governance standards adopted by The Stock Exchange, Mumbai, or the BSE, and The National Stock Exchange of India Limited, or the NSE, which we collectively refer to as the Indian Stock Exchanges, we must comply with additional standards by December 31, 2005. These standards include a certification by our chief executive officer and chief financial officer that they have evaluated the effectiveness of our internal control systems and that they have disclosed to our auditors and our audit committee any deficiencies in the design or operation of our internal controls of which they may become aware, as well as any steps taken or proposed to resolve the deficiencies.

We are committed to maintaining high standards of corporate governance and public disclosure, and our efforts to comply with evolving laws, regulations and standards in this regard have resulted in, and are likely to continue to result in, increased general and administrative expenses and a diversion of management time and attention from revenue-generating activities to compliance activities. In addition, the new laws, regulations and standards regarding corporate governance may make it more difficult for us to obtain director and officer liability insurance. Further, our board members, chief executive officer and chief financial officer could face an increased risk of personal liability in connection with their performance of duties. As a result, we may face difficulties attracting and retaining qualified board members and executive officers, which could harm our business. If we fail to comply with new or changed laws, regulations or standards of corporate governance, our business and reputation may be harmed.

As a foreign private issuer, we are subject to different U.S. securities laws and rules than a domestic issuer, which may, among other things, limit the information available to holders of our securities.

As a foreign private issuer, we are subject to requirements under the Securities Act of 1933, as amended, or Securities Act, and the Securities Exchange Act of 1934, as amended, or Exchange Act, which are different from the requirements applicable to domestic U.S. issuers. For example, our officers, directors and principal shareholders are exempt from the reporting and short-swing profit recovery provisions of Section 16 of the Exchange Act and the rules thereunder with respect to their purchases and

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iness, results of operations and financial condition and subject us to liability.

We Are Subject to Security Risks Which Could Harm Our Operations

Despite the implementation of various security measures by the Company, the Company s infrastructure is vulnerable to computer viruses, break-ins and similar disruptive problems caused by its customers or others. Computer viruses, break-ins or other security problems could lead to interruption, delays or cessation in service to the Company s customers. Further, such break-ins whether electronic or physical could also potentially jeopardize the security of confidential information stored in the computer systems of the Company s customers and other parties connected through the Company, which may deter potential customers and give rise to uncertain liability to parties whose security or privacy has been infringed. A significant security breach could result in loss of customers, damage to the Company s reputation, direct damages, costs of repair and detection, and other expenses. The occurrence of any of the foregoing events could have a material adverse effect on the Company s business, results of operations and financial condition.

The Company Is Controlled by Existing Shareholders And Therefore Other Shareholders Will Not Be Able to Direct The Company

The majority of the Company s shares and thus voting control of the Company is held by a relatively small group of shareholders. Because of such ownership, those shareholders will effectively retain control of the Company s Board of Directors and determine all of the Company s corporate actions. In addition, the Company and shareholders owning 15,341,181

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shares, or approximately 61% of the Company s shares outstanding as of February 28, 2006 have executed a Shareholders Agreement that, among other provisions, gives Aspen Select Healthcare, LP, our largest shareholder, the right to elect three out of the seven directors authorized for our Board, and nominate one mutually acceptable independent director. Accordingly, it is anticipated that Aspen Select Healthcare, LP and other parties to the Shareholders Agreement will continue to have the ability to elect a controlling number of the members of the Company s Board of Directors and the minority shareholders of the Company may not be able to elect a representative to the Company s Board of Directors. Such concentration of ownership may also have the effect of delaying or preventing a change in control of the Company.

No Foreseeable Dividends

The Company does not anticipate paying dividends on its common shares in the foreseeable future. Rather, the Company plans to retain earnings, if any, for the operation and expansion of Company business.

There Is No Guarantee of Registration Exemption for Recently Completed Sales of Unregistered Stock, Which Could Result in the Liquidation of the Company

In 2004, The Company sold approximately 3.0 million shares of unregistered stock in various private placements to accredited investors. These sales were made in reliance upon the "private placement" exemption from registration provided by Section 4(2) of the Securities Act of 1933, as amended, and Rule 506 of Regulation D promulgated pursuant thereto. Reliance on this exemption does not, however, constitute a representation or guarantee that such exemption is indeed available.

If for any reason these sales are deemed to be a public offering of the Company s shares (and if no other exemption from registration is available), the sale of the offered shares would be deemed to have been made in violation of the applicable laws requiring registration of the offered shares and the delivery of a prospectus. As a remedy in the event of such violation, each purchaser of the offered shares would have the right to rescind his or her purchase of the offered shares and to have his or her purchase price returned. If such a purchaser requests a return of his or her purchase price, funds might not be available for that purpose. In that event, liquidation of the Company might be required. Any refunds made would reduce funds available for the Company s working capital needs. A significant number of requests for rescission would probably cause the Company to be without funds sufficient to respond to such requests or to proceed with the Company s activities successfully.

The Company Does Not Have Any Specific Plans to Use Proceeds of Recently Sold Securities And Therefore The Funds May Not Improve The Company s Operations

The Company has not designated any specific use for the net proceeds from the recent sales by the Company of restricted equity securities. Rather, the Company intends to use the net proceeds primarily for general corporate purposes, including working capital and potential investments in new revenue producing activities. Accordingly, management will have significant flexibility in applying the net proceeds of such equity sales or advances under the revolving credit facility and this application may not increase revenue or otherwise lead to profitability.

ITEM 2. DESCRIPTION OF PROPERTY

Our laboratory and executive offices are located in a 5,200 square foot facility at 12701 Commonwealth Drive, Suite 9, Fort Myers, FL 33913. We lease this space from an unaffiliated third party under a three year lease agreement on a month to month basis at a cost of approximately $6,300/month.

ITEM 3. LEGAL PROCEEDINGS

The Company is currently a defendant in one lawsuit from a former employee relating to compensation related claims. The Company does not believe this lawsuit is material to its operations or financial results and intends to vigorously pursue its defense of the matter.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Not applicable.

PART II

ITEM 5. MARKET FOR THE COMPANY S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Our common stock is quoted on the OTC Bulletin Board. Set forth below is a table summarizing the high and low bid quotations for our common stock during its last two fiscal years.

QUARTER	HIGH BID	LOW BID
1st Quarter 2005	$0.70	$0.25
2nd Quarter 2005	$0.60	$0.26
3rd Quarter 2005	$0.59	$0.24
4th Quarter 2005	$0.35	$0.18
1st Quarter 2004	$1.22	$0.05
2nd Quarter 2004	$0.74	$0.30
3rd Quarter 2004	$0.45	$0.20
4th Quarter 2004	$0.70	$0.18

The above table is based on over-the-counter quotations. These quotations reflect inter-dealer prices, without retail mark-up, markdown or commissions, and may not represent actual transaction. All historical data was obtained from the www.BigCharts.com web site.

As of March 15, 2006 there were 375 stockholders of record of our common stock, excluding shareholders who hold their shares in brokerage accounts in street name . We have never declared or paid cash dividends on our common stock. We intend to retain all future earnings to finance future growth and therefore, do not anticipate paying any cash dividends in the foreseeable future.

Sales of Unregistered Securities

Except as otherwise noted, all of the following shares were issued and options and warrants granted pursuant to the exemption provided for under Section 4(2) of the Securities Act of 1933, as amended, as a "transaction not involving a public offering." No commissions were paid, and no underwriter participated, in connection with any of these transactions. Each such issuance was made pursuant to individual contracts which are discrete from one another and are made only with persons who were sophisticated in such transactions and who had knowledge of and access to sufficient information about the Company to make an informed investment decision. Among this information was the fact that the securities were restricted securities.

During 2004, we sold 3,040,000 shares of our common stock in a series of private placements at $0.25/share to unaffiliated third party investors. These transactions generated net proceeds to the Company of approximately $740,000 after deducting certain transaction expenses. These transactions involved the issuance of unregistered stock to accredited investors in transactions that we believed were exempt from registration under Rule 506 promulgated under the Securities Act of 1933. All of these shares were subsequently registered on a SB-2 Registration Statement, which was declared effective by the SEC on August 1, 2005.

During the period January 1, 2005 to May 31, 2005, we sold 450,953 shares of our common stock in a series of private placements at $0.30 - $0.35/share to unaffiliated third party

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investors. These transactions generated net proceeds to the Company of approximately $146,000. These transactions involved the issuance of unregistered stock to accredited investors in transactions that we believed were exempt from registration under Rule 506 promulgated under the Securities Act of 1933. All of these shares were subsequently registered on a SB-2 Registration Statement, which was declared effective by the SEC on August 1, 2005.

On March 23, 2005, the Company entered into a Loan Agreement with Aspen Select Healthcare, LP (Aspen) to provide up to $1.5 million of indebtedness pursuant to a credit facility (the Credit Facility). As part of the Credit Facility transaction, the Company also issued to Aspen a five year Warrant to purchase up to 2,500,000 shares of its common stock at an original exercise price of $0.50/share. Steven C. Jones our Acting Principal Financial Officer and Director is the general partner of Aspen.

On June 6, 2005, we entered into a Standby Equity Distribution Agreement (SEDA) with Cornell Capital Partners, LP (Cornell). Pursuant to the Standby Equity Distribution Agreement, the Company may, at its discretion, periodically sell to Cornell shares of common stock for a total purchase price of up to $5.0 million. Upon execution of the Standby Equity Distribution Agreement, Cornell received 381,888 shares of the Company s common stock as a commitment fee under the Standby Equity Distribution Agreement. The Company also issued 27,278 shares of the Company s common stock to Spartan Securities Group, Ltd. under a placement agent agreement relating to the Standby Equity Distribution Agreement.

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 has 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 shall have the right, up to April 30, 2006, to purchase up to $200,000 of restricted shares of the Company's 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 the Company's 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 does not exercise its Equity Purchase Rights in total, the Company shall have the right to sell the difference to SKL at terms no more favorable than Aspen's Equity Purchase Rights; (d) Aspen and the Company will 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 shall have the right, until April 30, 2006, to provide up to $200,000 of additional secured indebtedness to the Company under the Credit Facility Amendment and receive a five year warrant to purchase up to 450,000 shares of the Company's common stock with an exercise price of $0.26/share (the "New Debt Rights"); (f) the Company has 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") shall be vested and the exercise price per share shall be reset to $0.31 per share; and (g) the Company has 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 an aggregate of 150,000 shares of

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stock at an exercise price of $0.26/share for such shareholders waiver of their pre-emptive rights under the Shareholders Agreement.

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. 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.

Securities Authorized for Issuance Under Equity Compensation Plans (a)

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted average exercise price of options, warrants and rights	Number of securities remaining available for future issuance
Equity Compensation plans approved by security holders	1,800,000	$0.27	483,675
Equity compensation plans not approved by security holders	NA	NA	NA
Total	1,800,000	$0.27	483,675

(a) As of December 31, 2005. Currently, the Company s 2003 Equity Incentive Plan is the only equity compensation plan in effect.

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ITEM 6. MANAGEMENTS DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

Introduction

The following discussion and analysis should be read in conjunction with the Consolidated Financial Statements, and the Notes thereto included herein. The information contained below includes statements of Company s or management s beliefs, expectations, hopes, goals and plans that, if not historical, are forward-looking statements subject to certain risks and uncertainties that could cause actual results to differ materially from those anticipated in the forward-looking statements. For a discussion on forward-looking statements, see the information set forth in the Introductory Note to this Annual Report under the caption Forward Looking Statements , which information is incorporated herein by reference.

Overview

NeoGenomics operates a cancer genetics laboratory based in Fort Myers, Florida that is targeting the rapidly growing genetic and molecular testing segment of the medical laboratory market. The Company currently offers the following types of testing services to oncologists, pathologists, urologists, hospitals, and other laboratories throughout the United States: a) cytogenetics testing, which analyzes human chromosomes, b) Flourescence 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 and d) 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.

The genetic and molecular testing segment of the medical laboratory industry is the most rapidly growing segment of the medical laboratory 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 diseases. This has opened up a vast opportunity for laboratory companies that are positioned to address this growing market segment.

Critical Accounting Policies

The preparation of financial statements in conformity with United States generally accepted accounting principles requires our management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Our management routinely makes judgments and estimates about the effects of matters that are inherently uncertain.

Our critical accounting policies are those where we have made difficult, subjective or complex judgments in making estimates, and/or where these estimates can significantly impact our financial results under different assumptions and conditions. Our critical accounting policies are:

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Revenue Recognition

Accounts Receivable

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

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. Receivables are charged off to the allowance account at the time they are deemed uncollectible.

Results of Operations for the twelve months ended December 31, 2005 as compared to the twelve months ended December 31, 2004

During the fiscal year ended December 31, 2005, our revenues increased approximately 238% to $1,885,000 from $558,000 during the fiscal year ended December 31, 2004, primarily as a result of attracting new customers to our services and increasing the volume of services sold to existing customers. During 2005, our cost of revenue increased approximately 106% to $1,188,000 from $577,000 in 2004, primarily as a result of additional costs associated with hiring more laboratory personnel to support our increased testing volumes as well as increased costs from opening new lines of business. This resulted in a gross margin of approximately $697,000 in 2005 versus a gross margin (deficit) of approximately $19,000 for 2004. In percentage terms, our gross margin deficit increased from negative 3% of revenue in 2004 to 37% of revenue in 2005. This increase in gross margin was largely a result of higher testing volumes in 2005 and the economies of scales related to such higher volumes.

During 2005, our general and administrative expenses increased by approximately 110% to $1,497,000 from approximately $711,000 in 2004, primarily as a result of higher personnel related expenses associated with increased levels of staffing including the hiring of our senior management team. The increase for 2005 also included one-time expenses of $50,000 for an impairment of asset charge related to a write down of a mass spectrometer, approximately $47,000 for the recruiting fees associated with hiring our senior management team, and approximately $26,000 for the implementation of our Laboratory Information System. General and administrative expenses include all of our overhead and technology expenses as well as the cost of our management and sales personnel.

Interest expense increased approximately 121% during 2005 to $197,000 from $89,000 in 2004. Interest expense is mainly comprised of interest payable on advances from our credit facility from Aspen Select Healthcare, LP, which increased in 2005 to fund our operating losses

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and working capital needs. During 2005 approximately $40,500 of such interest expense was non-cash as it resulted from the amortization of the Credit Facility discount, which arose from booking the value of the warrants issued in conjunction with our Credit Facility.

As a result of the foregoing, our net loss increased by approximately 22% or $178,000 to $997,000 in 2005 from $819,000 in 2004.

During the twelve months ended December 31, 2005, our average revenue per customer requisition increased by approximately 29% to $632.23 from $489.97 in 2004, primarily as a result of performing more tests per customer requisition in 2005 than we did in 2004. Our average revenue per test decreased by approximately 5% to $461.86 from $484.44 in 2004 primarily as a result of an increase in the percentage of lower priced tests into our overall testing mix. Revenues per test are a function of both the nature of the test and the payer (Medicare, Medicaid, third party insurer, institutional client etc.). Our policy is to record as revenue the amounts that we expect to collect based on published or contracted amounts and/or prior experience with the payer. We have established a reserve for uncollectible amounts based on estimates of what we will collect from a) third-party payers with whom we do not have a contractual arrangement or sufficient experience to accurately estimate the amount of reimbursement we will receive, b) co-payments directly from patients, and c) those procedures that are not covered by insurance or other third party payers. On December 31, 2005, our Allowance for Doubtful Accounts was approximately $37,800.

Liquidity and Capital Resources

During the fiscal year ended December 31, 2005, our operating activities used approximately $902,000 in cash compared to $658,000 used in 2004. This amount primarily represented cash used to pay the expenses associated with our operations as well as fund our working capital needs. We also spent approximately $118,000 and $86,000 on new equipment in 2005 and 2004, respectively. We were able to finance operations and equipment purchases primarily through net advances on our Credit Facility and through sales of our common stock. This resulted in net cash from financing activities of approximately $918,000 and $832,000 in 2005 and 2004, respectively. At December 31, 2005 and March 28, 2005, we had cash or cash equivalents of approximately $11,000, and $270,000 respectively.

On January 3, 2005, we issued 27,288 shares of common stock under the Company s 2003 Equity Incentive Plan to two employees of the Company in satisfaction of $6,822 of accrued, but unpaid vacation.

During the period from January 1, 2005 to May 31, 2005, we sold 522,382 shares of our common stock in a series of private placements at $0.30 per share and $0.35 per share to unaffiliated third party investors. These transactions generated net proceeds to the Company of approximately $171,000.

On March 23, 2005, we entered into an agreement with Aspen Select Healthcare, LP (formerly known as MVP 3, LP) to refinance our existing indebtedness of $740,000 and provide for additional liquidity of up to $760,000 to the Company. Under the terms of the agreement, Aspen Select Healthcare, LP, a Naples, Florida-based private investment fund, made available up to $1.5 million of debt financing in the form of a revolving credit facility (the Credit Facility) with an initial maturity of March 31, 2007. Aspen is managed by its General Partner, Medical Venture Partners, LLC, which is controlled by a director of NeoGenomics. As part of this transaction, we issued a five year warrant to Aspen to purchase up to 2,500,000 shares of common stock at an initial exercise price of $0.50/share, all of which are currently vested.

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Steven C. Jones our Acting Principal Financial Officer and Director is the general partner of Aspen.

On June 6, 2005, we entered into a Standby Equity Distribution Agreement (SEDA) with Cornell Capital Partners, LP (Cornell). Pursuant to the Standby Equity Distribution Agreement, the Company may, at its discretion, periodically sell to Cornell shares of common stock for a total purchase price of up to $5.0 million. For each share of common stock purchased under the Standby Equity Distribution Agreement, Cornell will pay the Company 98% of the lowest volume weighted average price (VWAP) of the Company s common stock as quoted by Bloomberg, LP on the Over-the-Counter Bulletin Board or other principal market on which the Company s common stock is traded for the 5 days immediately following the notice date (the Purchase Price). The total number of shares issued to Cornell under each advance request will be equal to the total dollar amount of the advance request divided by the Purchase Price determined during the five day pricing period. Cornell will also retain 5% of each advance under the Standby Equity Distribution Agreement as a transaction fee. Cornell s obligation to purchase shares of the Company s common stock under the Standby Equity Distribution Agreement is subject to certain conditions, including the Company maintaining an effective registration statement for shares of common stock sold under the Standby Equity Distribution Agreement and is limited to $750,000 per weekly advance. The amount and timing of all advances under the Standby Equity Distribution Agreement are at the discretion of the Company and the Company is not obligated to issue and sell any securities to Cornell, unless and until it decides to do so. Upon execution of the Standby Equity Distribution Agreement, Cornell received 381,888 shares of the Company s common stock as a commitment fee under the Standby Equity Distribution Agreement. The Company also issued 27,278 shares of the Company s common stock to Spartan Securities Group, Ltd. under a placement agent agreement relating to the Standby Equity Distribution Agreement.

On July 1, 2005, we issued 14,947 shares of our common stock under the Company s 2003 Equity Incentive Plan to two employees of the Company in satisfaction of $4,933 of accrued, but unpaid vacation.

On August 29, 2005, we requested a $25,000 advance on our Standby Equity Distribution Agreement with Cornell. The advance was completed on September 8, 2005 and resulted in the sale of 63,776 shares of common stock. Our net proceeds were $23,250 after deducting $1,250 in fees to Cornell and a $500 escrow agent fee to Yorkville Advisors Management, LLC.

On December 10, 2005, we requested a $50,000 advance on our Standby Equity Distribution Agreement with Cornell. The advance was completed on December 18, 2005 and resulted in the sale of 241,779 shares of common stock. Our net proceeds were $47,000 after deducting $2,500 in fees to Cornell and a $500 escrow agent fee to Yorkville Advisors Management, LLC.

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 has 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 shall have the right, up to April 30, 2006, to purchase up to $200,000 of restricted shares of the Company's 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 the

Company's 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 does not exercise its Equity Purchase Rights in total, the Company shall have the right to sell the difference to SKL at terms no more favorable than Aspen's Equity Purchase Rights; (d) Aspen and the Company will 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 shall have the right, until April 30, 2006, to provide up to $200,000 of additional secured indebtedness to the Company under the Credit Facility Amendment and receive a five year warrant to purchase up to 450,000 shares of the Company's common stock with an exercise price of $0.26/share (the "New Debt Rights"); (f) the Company has 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") shall be vested and the exercise price per share shall be reset to $0.31 per share; and (g) the Company has 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.

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. 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.

At the present time, we anticipate that based on our current business plan, operations and the financing package we announced in January 2006 that we have sufficient cash to become profitable and further manage our business for at least the next 12 months. This estimate of our cash needs does not include any additional funding which may be required for growth in our business beyond that which is planned, strategic transactions or acquisitions. To the extent we need additional capital beyond our current cash resources, the amended Credit Facility with Aspen allows us to draw an additional $200,000 and we still have $4,925,000 of availability under our Standby Equity Distribution Agreement with Cornell Capital. In the event that the Company grows faster than we currently anticipate or we engage in strategic transactions or acquisitions and our cash on hand and availability under our Credit Facility and Standby Equity Distribution Agreements is not sufficient to meet our financing needs, we may need to raise additional capital from other resources. In such event, the Company may not be able to obtain such funding on attractive terms or at all and the Company may be required to curtail its operations.

Capital Expenditures

We currently forecast capital expenditures for the coming year in order to execute on our business plan. The amount and timing of such capital expenditures will be determined by the volume of business, but we currently anticipate that we will need to purchase approximately $300,000 to $400,000 of additional capital equipment during the next twelve months. We plan to fund these expenditures with cash, through equipment financing arrangements with third parties, through our Credit Facility with Aspen or through our Standby Equity Distribution Agreement with Cornell. We may not be eligible to obtain all of our capital equipment without additional financing. 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 continue to grow our revenues.

Commitments

We currently lease approximately 5,200 square feet in Fort Myers, Florida from an unaffiliated third party under a three year lease agreement at a cost of approximately $6,300/month. That lease ends on August 31, 2006. We are currently in negotiations on a new lease for our facility including the lease of an additional 4,000 square feet adjacent to our current facility. This space will allow for future expansion of our business in 2006.

On December 14, 2004, we entered into an employment agreement with Robert P. Gasparini to serve as our President and Chief Science Officer. The employment agreement has an initial term of three years, effective January 3, 2005; provided, however that either party may terminate the agreement by giving the other party sixty days written notice. The employment agreement specifies an initial base salary of $150,000/year, with specified salary increases to $185,000/year over the first 18 months of the contract. Mr. Gasparini is also entitled to receive cash bonuses for any given fiscal year in an amount equal to 15% of his base salary if he meets certain targets established by the Board of Directors. In addition, Mr. Gasparini was granted 1,000,000 Incentive Stock Options that have a ten year term so long as Mr. Gasparini remains an employee of the Company (these options, which vest according to the passage of time and other performance-based milestones, will result in us recording stock based compensation expense beginning in 2005). Mr. Gasparini's employment agreement also specifies that he is entitled to four weeks of paid vacation per year and other health insurance and relocation benefits. In the event that Mr. Gasparini is terminated without cause by the Company, the Company has agreed to pay Mr. Gasparini's base salary and maintain his employee benefits for a period of six months.

Recent Accounting Pronouncements

SFAS 155   Accounting for Certain Hybrid Financial Instruments an amendment of FASB Statements No. 133 and 140

This Statement, issued in February 2006, amends FASB Statements No. 133, *Accounting for Derivative Instruments and Hedging Activities,* and No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities.* This Statement resolves issues addressed in Statement 133 Implementation Issue No. D1,   Application of Statement 133 to Beneficial Interests in Securitized Financial Assets.

This Statement:

a. Permits fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation
b. Clarifies which interest-only strips and principal-only strips are not subject to the requirements of Statement 133
c. Establishes a requirement to evaluate interests in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation
d. Clarifies that concentrations of credit risk in the form of subordination are not embedded derivatives
e. Amends Statement 140 to eliminate the prohibition on a qualifying special-purpose entity from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument.

This Statement is effective for all financial instruments acquired or issued after the beginning of our first fiscal year that begins after September 15, 2006.

The fair value election provided for in paragraph 4(c) of this Statement may also be applied upon adoption of this Statement for hybrid financial instruments that had been bifurcated under paragraph 12 of Statement 133 prior to the adoption of this Statement. Earlier adoption is permitted as of the beginning of our fiscal year, provided we have not yet issued financial statements, including financial statements for any interim period, for that fiscal year. Provisions of this Statement may be applied to instruments that we hold at the date of adoption on an instrument-by-instrument basis.

We are currently reviewing the effects of adoption of this statement but it is not expected to have a material impact on our financial statements.

SFAS 154 'Accounting Changes and Error Corrections--a replacement of APB Opinion No. 20 and FASB Statement No. 3

In May 2005, the Financial Accounting Standards Board ("FASB") issued Statement No. 154. This Statement replaces APB Opinion No. 20, Accounting Changes, and FASB Statement No. 3, Reporting Accounting Changes in Interim Financial Statements, and changes the requirements for the accounting for, and reporting of, a change in accounting principle. This Statement applies to all voluntary changes in accounting principle. It also applies to changes required by an accounting pronouncement in the unusual instance that the pronouncement does not include specific transition provisions. When a pronouncement includes specific transition provisions, those provisions should be followed.

SFAS 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. It will only affect our financial statements if we change any of our accounting principles. At this time, no such changes are contemplated or anticipated.

SFAS 153 'Exchanges of Nonmonetary Assets an Amendment of APB Opinion No. 29'

In December 2004, FASB Statement No. 153 was issued amending APB Opinion No. 29 to eliminate the exception allowing nonmonetary exchanges of similar productive assets to be measured based on the carrying value of the assets exchanged as opposed to being measured at their fair values. This exception was replaced with a general exception for exchanges of nonmonetary assets that do not have commercial substance. A nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. The provisions of this statement are effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. The adoption of this statement is not expected to have a material impact on our financial statements.

SFAS 151 'Inventory Costs--an amendment of ARB No. 43, Chapter 4'

Issued by the FASB in November 2004, this Statement amends the guidance in ARB No. 43, Chapter 4, "Inventory Pricing," to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage). Paragraph 5 of ARB 43, Chapter 4, previously stated that ". . . under some circumstances, items such as idle facility expense, excessive spoilage, double freight, and rehandling costs may be so abnormal as to require treatment as current period charges. . . ." This Statement requires that those items be recognized as current-period charges regardless of whether they meet the criterion of "so abnormal." In addition, this Statement requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities.

The provisions of this statement are effective for inventory costs incurred during fiscal periods beginning after June 15, 2005. The adoption of this statement is not expected to have a material impact on our financial statements.

In December 2004, the Financial Accounting Standards Board issued Statement Number 123 (FAS 123 (R)), Share-Based Payments, which is effective for the reporting period beginning on January 1, 2006. The statement will require the Company to recognize compensation expense in an amount equal to the fair value of share-based payments such as stock options granted to employees. The Company has 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, the Company is 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. The impact of adopting this statement is $30,156 in 2006.

Recently adopted accounting standards

FIN 47 "Accounting for Conditional Asset Retirement Obligations an interpretation of FASB Statement No. 143"

FASB Interpretation No. 47, issued in March 2005, clarifies that the term conditional asset retirement obligation as used in FASB Statement No. 143, Accounting for Asset Retirement Obligations, refers to a legal condition to perform an asset retirement activity in which the timing and (or) method of settlement are conditional on a future event that may or may not be within the control of the entity. The obligation to perform the asset retirement activity is unconditional even though uncertainty exists about the timing and (or) method of settlement. Thus, the timing and (or) method of settlement may be conditional on a future event. Accordingly, an entity is required to recognize a liability for the fair value of a conditional asset retirement obligation if the fair value of the liability can be reasonably estimated.

This Interpretation is effective no later than the end of fiscal years ending after December 15, 2005 (our fiscal year ended December 31, 2005). Adoption of this Interpretation did not have any material impact on our financial statements.

FIN 46(R) "Consolidation of Variable Interest Entities--an interpretation of ARB

No. 51"

In December 2003, FASB Interpretation No. 46(R) was issued. This Interpretation of Accounting Research Bulletin No. 51, Consolidated Financial Statements, which replaces FIN 46, Consolidation of Variable Interest Entities, addresses consolidation by business enterprises of variable interest entities, which have one or more of the following characteristics:

1. The equity investment at risk is not sufficient to permit the entity to finance its activities without additional subordinated financial support provided by any parties, including the equity holders.
2. The equity investors lack one or more of the following essential characteristics of a controlling financial interest:
   a. The direct or indirect ability to make decisions about the entity's activities through voting rights or similar rights
   b. The obligation to absorb the expected losses of the entity
   c. The right to receive the expected residual returns of the entity.

3. The equity investors have voting rights that are not proportionate to their economic interests, and the activities of the entity involve or are conducted on behalf of an investor with a disproportionately small voting interest.

The adoption of FIN 46(R) had no effect on our financial statements.

FIN 45 'Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness to Others, an interpretation of FASB Statements No. 5, 57 and 107 and a rescission of FASB Interpretation No. 34'

In November 2002, FASB Interpretation No. 45 was issued which enhances the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under guarantees issued. The Interpretation also clarifies that a guarantor is required to recognize, at inception of a guarantee, a liability for the fair value of the obligation undertaken.

The adoption of FIN 45 had no effect on our financial statements.

SFAS 132 'Employers' Disclosures about Pensions and Other Postretirement Benefits'

In December 2003, SFAS 132 (revised) was issued which prescribes the required employers' disclosures about pension plans and other postretirement benefit plans; but it does not change the measurement or recognition of those plans.

The application of Statement 132 had no effect on our financial statements.

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ITEM 7. FINANCIAL STATEMENTS

NEOGENOMICS, INC.

Consolidated Financial Statements as of

December 31, 2005 and for the years ended

December 31, 2005 and 2004 and

Report of Independent Registered Public Accounting Firm

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[Letterhead of Kingery & Crouse, P.A.]

REPORT INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and stockholders of NeoGenomics, Inc. and subsidiary:

We have audited the accompanying consolidated balance sheet of NeoGenomics, Inc. and subsidiary (collectively the Company), as of December 31, 2005, and the related consolidated statements of operations, stockholders deficit and cash flows for the years ended December 31, 2005 and 2004. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States of America). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company s internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2005, and the results of its operations and its cash flows for the years ended December 31, 2005 and 2004, in conformity with accounting principles generally accepted in the United States of America.

/s/ Kingery & Crouse, P.A.

March 30, 2006

Tampa, FL

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NEOGENOMICS, INC.

CONSOLIDATED BALANCE SHEET AS OF DECEMBER 31, 2005

ASSETS	
CURRENT ASSETS:	
Cash	$ 10,944
Accounts receivable (net of allowance for doubtful accounts of $37,807)	551,099
Inventories	60,000
Other current assets	58,509
Total current assets	680,552
FURNITURE AND EQUIPMENT (net of accumulated depreciation of $261,311)	381,556
OTHER ASSETS	17,996
TOTAL	$ 1,080,104
LIABILITIES AND STOCKHOLDERS DEFICIT	
CURRENT LIABILITIES:	
Accounts payable	$ 463,637
Accrued compensation	42,547
Accrued and other liabilities	59,665
Deferred revenue	100,000
Total current liabilities	665,849
LONG TERM LIABILITY Due to Affiliates (net of discount of $90,806)	1,409,194
TOTAL LIABILITIES	2,075,043
STOCKHOLDERS DEFICIT:	
Common stock, $.001 par value, (100,000,000 shares authorized; 22,836,754 shares issued and outstanding)	22,836
Additional paid-in capital	10,005,308
Deferred stock compensation	(2,685)
Accumulated deficit	(11,020,398)
Total stockholders deficit	(994,939)
TOTAL	$ 1,080,104

See notes to consolidated financial statements.

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NEOGENOMICS, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

		2005		2004
NET REVENUE	$	1,885,324	$	558,074
COST OF REVENUE		1,188,402		576,867
GROSS MARGIN (DEFICIT)		696,922		(18,793)
OTHER OPERATING EXPENSES:				
General and administrative		1,497,286		710,771
Interest expense		196,796		89,421
Total other operating expenses		1,694,082		800,192
NET LOSS	$	(997,160)	$	(818,985)
NET LOSS PER SHARE - Basic and Diluted	$	(0.04)	$	(0.04)
WEIGHTED AVERAGE NUMBER				
OF SHARES OUTSTANDING Basic and Diluted		22,264,435		19,901,028

See notes to consolidated financial statements.

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NEOGENOMICS, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS DEFICIT

FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Deferred Stock Compensation	Accumulated Deficit	Total
BALANCES, DECEMBER 31, 2003	**18,449,416**	**$ 18,449**	**$ 8,818,002**	**$ -**	**$ (9,204,253)**	**$ (367,802)**
Common stock issuances	3,040,000	3,040	756,960	-	-	760,000
Options exercised and warrants issued for services	50,000	50	9,674	-	-	9,724
Transaction fees and expenses	-	-	(23,272)	-	-	(23,272)
Deferred stock compensation related to warrants issued for services	-	-	42,300	(42,300)	-	-
Amortization of deferred stock compensation	-	-	-	13,680	-	13,680
Net loss	-	-	-	-	(818,985)	(818,985)
BALANCES, DECEMBER 31, 2004	**21,539,416**	**21,539**	**9,603,664**	**(28,620)**	**(10,023,238)**	**(426,655)**
Common stock issuances	1,237,103	1,237	394,763	-	-	396,000
Transaction fees and expenses			(191,160)	-	-	(191,160)
Options issued to Scientific Advisory Board members	-	-	-	2,953	-	2,953
Value of non-qualified stock options	-	-	5,638	(5,638)	-	-
Warrants issued for services	-	-	187,722	-	-	187,722
Stock issued for services	60,235	60	15,475	-	-	15,535
Deferred stock compensation related to warrants issued for services	-	-	(10,794)	10,794	-	-
Amortization of deferred stock compensation	-	-	-	17,826	-	17,826
Net loss	-	-	-	-	(997,160)	(997,160)
BALANCES, DECEMBER 31, 2005	**22,836,754**	**$ 22,836**	**$ 10,005,308**	**$ (2,685)**	**$ (11,020,398)**	**$ (994,939)**

See notes to consolidated financial statements.

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NEOGENOMICS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

		2005		2004
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net loss	$	(997,160)	$	(818,985)
Adjustments to reconcile net loss to net cash used in operating activities:				
Depreciation		123,998		90,583
Impairment of fixed assets		50,000		-
Amortization of credit facility warrants and debt issue costs		57,068		-
Stock based compensation and consulting		85,877		19,904
Provision for bad debts		132,633		28,959
Other non-cash expenses		29,576		-
Changes in assets and liabilities, net:				
Accounts receivable, net		(627,241)		(21,589)
Inventory		(44,878)		(4,529)
Other current assets		(54,529)		(9,495)
Deposits		300		4,540
Deferred revenues		(10,000)		-
Accounts payable and accrued				
and other liabilities		352,305		52,479
NET CASH USED IN OPERATING ACTIVITIES		(902,051)		(658,133)
CASH FLOWS FROM INVESTING ACTIVITIES:				
Purchases of property and equipment, net		(117,628)		(85,932)
NET CASH USED IN INVESTING ACTIVITIES		(117,628)		(85,932)
CASH FLOWS FROM FINANCING ACTIVITIES:				
Advances from affiliates, net		760,000		91,334
Debt issue costs		(53,587)		-
Issuances of common stock for cash, net of transaction expenses		211,662		740,228
NET CASH PROVIDED BY FINANCING ACTIVITIES		918,075		831,562
NET CHANGE IN CASH AND CASH EQUIVALENTS		(101, 604)		87,497
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR		112,548		25,051
CASH AND CASH EQUIVALENTS, END OF YEAR	$	10,944	$	112,548
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:				
Interest paid	$	136,936	$	119,777
Income taxes paid	$	-	$	-

See notes to consolidated financial statements.

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NEOGENOMICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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).

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Parent and the Subsidiary. 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

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.

Concentrations of Credit Risk

We grant credit without collateral to our customers, most of who are either covered by Medicare or insured under third-party payer agreements, or are other laboratories or hospitals whom we direct bill for services. As of December 31, 2005, approximately 36% and 40% of our receivables were from Medicare and other direct bill clients, respectively, and during the year ended December 31, 2005, four customers represented approximately 65% of revenue with each party representing greater than 10% of such revenues. In the event that we lost one of these customers we would potentially lose a significant percentage of our revenues. In 2004, one customer made up approximately 16% of our total volume.

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Inventories

Inventories, which consist principally of supplies, are valued at the lower of cost (first in, first out method) or market.

Use of Estimates

The preparation of consolidated 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 consolidated 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 the allowances discussed under Accounts Receivable above as well as estimating depreciation periods of tangible assets, and long-lived impairments, among others. The markets for our services are characterized by intense price competition, evolving standards and changes in healthcare regulations, all of which could impact the future realizability of our assets. Estimates and assumptions are reviewed periodically and the effects of revisions are reflected in the consolidated financial statements in the period they are determined to be necessary. It is at least reasonably possible that our estimates could change in the near term with respect to these matters.

Financial Instruments

We believe the book value of our financial instruments included in our current assets and liabilities approximates their fair values due to their short-term nature.

We also believe the book value of our long-term liability approximates its fair value as the consideration (i.e. interest and warrants) on such obligation approximates the consideration at which similar types of borrowing arrangements could be currently obtained.

Furniture and equipment

Furniture and equipment are stated at cost. Major additions are capitalized, while minor additions and maintenance and repairs, which do not extend the useful life of an asset, are expensed as incurred. Depreciation is provided using the straight-line method over the assets estimated useful lives, which range from 3 to 5 years.

Long-Lived Assets

Statement of Financial Accounting Standards (SFAS) 144, "Accounting for the Impairment or Disposal of Long-Lived Assets requires that long-lived assets, including certain identifiable intangibles, be reviewed for impairment whenever events or changes in circumstances indicate that the carrying value of the assets in question may not be recoverable. Because of our losses from operations, we evaluated our long-lived assets during 2005 and determined that a piece of equipment had a remaining net book value in excess of its fair value (as determined by our management). Accordingly, we recorded an impairment loss of $50,000 during the year ended December 31, 2005.

Income Taxes

We compute income taxes in accordance with Financial Accounting Standards Statement No. 109 "Accounting for Income Taxes" ("SFAS 109"). Under SFAS 109, deferred taxes are recognized for the tax consequences of temporary differences by applying enacted statutory rates applicable to future years to differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities. Also, the effect on deferred taxes of a change in tax rates is recognized in income in the period that included the enactment date. Temporary differences between financial and tax reporting arise primarily from the use of different depreciation methods for furniture and equipment as well as impairment losses and the timing of recognition of bad debts.

Stock-Based Compensation

Prior to December 31, 2005, the Company used Statement of Financial Accounting Standards No. 148 "Accounting for Stock-Based Compensation - Transition and Disclosure" (SFAS No. 148) to account for its 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, the Company continued to apply the intrinsic value method under Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees," to account for its stock-based employee compensation arrangements.

In December 2004, the Financial Accounting Standards Board issued Statement Number 123 (FAS 123 (R)), Share-Based Payments, which is effective for the reporting period beginning on January 1, 2006. The statement will require the Company to recognize compensation expense in an amount equal to the fair value of share-based payments such as stock options granted to employees. The Company has 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, the Company is 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. The impact of adopting this statement is expected to increase our expense by approximately $30,000 in 2006.

Statement of Cash Flows

For purposes of the statement of cash flows, we consider all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

Unamortized Discount

Unamortized discount resulting from transaction expenses incurred with the establishment of the Credit Facility (see Note G) is being amortized to interest expense over the contractual life of the Credit Facility (24 months) using the straight line method.

Net Loss Per Common Share

We compute 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 loss per share is computed by dividing the net loss available to common stockholders by the weighted average number of common shares outstanding during the period. Diluted net loss per share is computed by dividing the net loss for the period by the weighted average number of common and common

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equivalent shares outstanding during the period. Common equivalent shares outstanding as of December 31, 2005 and December 31, 2004, which consisted of employee stock options and certain warrants issued to consultants and other providers of financing to the Company, were excluded from diluted net loss per common share calculations as of such dates because they were anti-dilutive.

Other Recent Pronouncements

SFAS 155 Accounting for Certain Hybrid Financial Instruments an amendment of FASB Statements No. 133 and 140

This Statement, issued in February 2006, amends FASB Statements No. 133, *Accounting for Derivative Instruments and Hedging Activities,* and No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities.* This Statement resolves issues addressed in Statement 133 Implementation Issue No. D1, Application of Statement 133 to Beneficial Interests in Securitized Financial Assets.

This Statement:

a. Permits fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation
b. Clarifies which interest-only strips and principal-only strips are not subject to the requirements of Statement 133
c. Establishes a requirement to evaluate interests in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation
d. Clarifies that concentrations of credit risk in the form of subordination are not embedded derivatives
e. Amends Statement 140 to eliminate the prohibition on a qualifying special-purpose entity from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument.

This Statement is effective for all financial instruments acquired or issued after the beginning of our first fiscal year that begins after September 15, 2006.

The fair value election provided for in paragraph 4(c) of this Statement may also be applied upon adoption of this Statement for hybrid financial instruments that had been bifurcated under paragraph 12 of Statement 133 prior to the adoption of this Statement. Earlier adoption is permitted as of the beginning of our fiscal year, provided we have not yet issued financial statements, including financial statements for any interim period, for that fiscal year. Provisions of this Statement may be applied to instruments that we hold at the date of adoption on an instrument-by-instrument basis.

We are currently reviewing the effects of adoption of this statement but it is not expected to have a material impact on our financial statements.

SFAS 154 'Accounting Changes and Error Corrections--a replacement of APB Opinion No. 20 and FASB Statement No. 3

In May 2005, the Financial Accounting Standards Board ("FASB") issued Statement No. 154. This Statement replaces APB Opinion No. 20, Accounting Changes, and FASB Statement No. 3, Reporting Accounting Changes in Interim Financial Statements, and changes the requirements for the accounting for, and reporting of, a change in accounting principle. This

Statement applies to all voluntary changes in accounting principle. It also applies to changes required by an accounting pronouncement in the unusual instance that the pronouncement does not include specific transition provisions. When a pronouncement includes specific transition provisions, those provisions should be followed.

SFAS 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. It will only affect our financial statements if we change any of our accounting principles. At this time, other than SFAS 123® which has specific transaction provisions, no such changes are contemplated or anticipated.

SFAS 153 'Exchanges of Nonmonetary Assets an Amendment of APB Opinion No. 29'

In December 2004, FASB Statement No. 153 was issued amending APB Opinion No. 29 to eliminate the exception allowing nonmonetary exchanges of similar productive assets to be measured based on the carrying value of the assets exchanged as opposed to being measured at their fair values. This exception was replaced with a general exception for exchanges of nonmonetary assets that do not have commercial substance. A nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. The provisions of this statement are effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. The adoption of this statement is not expected to have a material impact on our financial statements.

SFAS 151 'Inventory Costs--an amendment of ARB No. 43, Chapter 4'

Issued by the FASB in November 2004, this Statement amends the guidance in ARB No. 43, Chapter 4, "Inventory Pricing," to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage). Paragraph 5 of ARB 43, Chapter 4, previously stated that ". . . under some circumstances, items such as idle facility expense, excessive spoilage, double freight, and rehandling costs may be so abnormal as to require treatment as current period charges. . . ." This Statement requires that those items be recognized as current-period charges regardless of whether they meet the criterion of "so abnormal." In addition, this Statement requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities.

The provisions of this statement are effective for inventory costs incurred during fiscal periods beginning after June 15, 2005. The adoption of this statement is not expected to have a material impact on our financial statements.

Recently adopted accounting standards

FIN 47 "Accounting for Conditional Asset Retirement Obligations an interpretation of FASB Statement No. 143"

FASB Interpretation No. 47, issued in March 2005, clarifies that the term conditional asset retirement obligation as used in FASB Statement No. 143, Accounting for Asset Retirement Obligations, refers to a legal condition to perform an asset retirement activity in which the timing and (or) method of settlement are conditional on a future event that may or may not be within the control of the entity. The obligation to perform the asset retirement activity is unconditional even though uncertainty exists about the timing and (or) method of settlement. Thus, the timing and (or) method of settlement may be conditional on a future event. Accordingly, an entity is required to recognize a liability for the fair value of a conditional asset retirement obligation if the fair value of the liability can be reasonably estimated.

This Interpretation is effective no later than the end of fiscal years ending after December 15, 2005 (our fiscal year ended December 31, 2005). Adoption of this Interpretation did not have any material impact on our financial statements.

FIN 46(R) "Consolidation of Variable Interest Entities--an interpretation of ARB

No. 51"

In December 2003, FASB Interpretation No. 46(R) was issued. This Interpretation of Accounting Research Bulletin No. 51, Consolidated Financial Statements, which replaces FIN 46, Consolidation of Variable Interest Entities, addresses consolidation by business enterprises of variable interest entities, which have one or more of the following characteristics:

1. The equity investment at risk is not sufficient to permit the entity to finance its activities without additional subordinated financial support provided by any parties, including the equity holders.
2. The equity investors lack one or more of the following essential characteristics of a controlling financial interest:
   a. The direct or indirect ability to make decisions about the entity's activities through voting rights or similar rights
   b. The obligation to absorb the expected losses of the entity
   c. The right to receive the expected residual returns of the entity.

3. The equity investors have voting rights that are not proportionate to their economic interests, and the activities of the entity involve or are conducted on behalf of an investor with a disproportionately small voting interest.

The adoption of FIN 46(R) had no effect on our financial statements.

NOTE B LIQUIDITY

Our consolidated financial statements are prepared using accounting principles generally accepted in the United States of America applicable to a going concern, which contemplate the realization of assets and liquidation of liabilities in the normal course of business. At December 31, 2005, we had a stockholders deficit of approximately $995,000. However, subsequent to December 31, 2005, we enhanced our working capital by issuing 3,000,000 shares of common for $600,000. We also have the ability to draw $200,000 of debt capital through unused availability on our Credit Facility with Aspen Select Healthcare, LP and draw on up to $4,925,000 of availability under our Standby Equity Distribution Agreement with Cornell Capital. As such, we believe we have adequate cash resources to meet our operating commitments for the next twelve months and accordingly our consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts and classification of liabilities that might be necessary should we be unable to continue as a going concern.

NOTE C FURNITURE AND EQUIPMENT, NET

Furniture and equipment consists of the following at December 31, 2005:

Equipment	$595,579
Furniture & Fixtures	47,278
Subtotal	642,867

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Less accumulated depreciation and amortization	(261,311)
Furniture and Equipment, net	$381,556

NOTE D - INCOME TAXES

We recognized losses for both financial and tax reporting purposes during each of the years in the accompanying consolidated statements of operations. Accordingly, no provision for income taxes and/or deferred income taxes payable have been provided for in the accompanying consolidated financial statements.

At December 31, 2005, we have net operating loss carryforwards of approximately $2,150,000 (the significant difference between this amount, and our accumulated deficit of $11 million arises primarily from certain stock based compensation that is considered to be a permanent difference). Assuming our net operating loss carryforwards are not disallowed because of certain change in control provisions of the Internal Revenue Code, these net operating loss carryforwards expire in various years through the year ended December 31, 2025. However, we have established a valuation allowance to fully reserve our deferred income tax assets as such assets did not meet the required asset recognition standard established by SFAS 109. Our valuation allowance increased by $16,000 during the year ended December 31, 2005.

At December 31, 2005 our current and non-current deferred income tax assets (assuming an effective income tax rate of approximately 40%) consisted of the following:

Net current deferred income tax asset:		Amounts
Allowance for doubtful accounts	$	14,500
Less valuation allowance		(14,500)
Total	$	-

Net non-current deferred income tax asset:		Amounts
Net operating loss carryforwards	$	836,500
Accumulated depreciation and impairment		(70,000)
Subtotal		766,500
Less valuation allowance		(766,500)
Total	$	-

NOTE E - INCENTIVE STOCK OPTIONS AND AWARDS

Our 2003 Equity Incentive Plan provides for the granting of stock options and awards to officers, directors, employees and consultants. We are authorized to grant awards for up to 10% of our issued and outstanding common stock, which equated to 2,283,675 shares of our common stock as of December 31, 2005. As of December 31, 2005, option and stock awards totaling 1,800,000 shares were outstanding. Vesting and exercise price provisions are determined by the board of directors at the time the awards are granted.

The status of our stock options and stock awards are summarized as follows:

	Number Of Shares		Weighted Average Exercise Price
Outstanding at December 31, 2003	1,100,000	$	0.07
Granted	810,000		0.17
Exercised	(50,000)		0.07
Canceled	(977,671)		0.07
Outstanding at December 31, 2004	882,329		0.16
Granted	1,442,235		0.27
Exercised	(42,235)		0.00
Canceled	(482,329)		0.09
Outstanding at December 31, 2005	1,800,000	$	0.27
Exercisable at December 31, 2005	525,000	$	0.26

The following table summarizes information about our options outstanding at December 31, 2005:

	Exercise Price	Number Outstanding	Weighted Average Remaining Contractual Life (in years)	Options Exercisable		Weighted Average Exercise Price
$	0.00-0.30	1,485,000	8.9	469,000	$	0.25
$	0.31-0.40	305,000	8.1	51,000	$	0.35
$	0.41-0.50	10,000	9.4	5,000	$	0.46
		1,800,000		525,000		

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We account for our stock-based compensation using the intrinsic value method prescribed by Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees . Had our compensation expense for stock-based compensation plans been determined based upon fair values at the grant dates for awards under this plan in accordance with SFAS No. 123, Accounting for Stock-Based Compensation, our net loss and pro forma net loss per share amounts would have been reflected as follows:

	2005	2004
Net loss:		
As reported	$ (997,160)	$ (818,985)
Pro forma	$ (1,018,632)	$ (848,777)
Loss per share:		
As reported	$ (0.04)	$ (0.04)
Pro forma	$ (0.05)	$ (0.04)

The weighted average fair value of incentive stock options granted during 2005, which were not expensed, estimated on the date of grant using the Black-Scholes option-pricing model, was approximately $21,472 or $0.05 per option share. The fair value of options granted was estimated on the date of the grants using the following approximate assumptions: dividend yield of 0 %, expected volatility of 12.0 - 20.0% (depending on the date of issue), risk-free interest rate of 4.0 4.5% (depending on the date of issue), and an expected life of 3 years.

NOTE F COMMITMENTS AND CONTINGENCIES

Operating Lease

In August 2003, we entered into a three year lease for 5,200 square feet at our laboratory facility in Fort Myers, Florida. The lease, which commenced on August 8, 2003, currently requires average monthly rental payments of approximately $6,300 during the lease term. Such amount includes estimated operating and maintenance expenses and sales tax and is subject to annual increases. Rent expense for 2005 and 2004 was $76,303 and $73,103, respectively.

The lease is due to expire on August 31, 2006. The lease contains a provision that allows us to extend the lease for two terms of three years each. We are currently in negotiations on a new lease for our facility including the lease of an additional 4,000 square feet adjacent to our current facility. This space will allow for future expansion of our business in 2006.

Capital Lease

During March 2006 we entered into a 5 year capital lease with Beckman Coulter for a flow cytometer. The lease is for the useful life of the equipment and title to the equipment will remain with Beckman Coulter. The agreement contains no purchase option at the end of the lease term. The equipment cost is $125,064.30 and the monthly lease payment will be $2,538.81. This is an effective interest rate of 8% per annum.

Employment Contract

On December 14, 2004, we entered into an employment agreement with Robert P. Gasparini to serve as our President and Chief Science Officer. The employment agreement has an initial term of three years, effective January 3, 2005; provided, however that either party may

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terminate the agreement by giving the other party sixty days written notice. The employment agreement specifies an initial base salary of $150,000/year, with specified salary increases to $185,000/year over the first 18 months of the contract. Mr. Gasparini is also entitled to receive cash bonuses for any given fiscal year in an amount equal to 15% of his base salary if he meets certain targets established by the Board of Directors. In addition, Mr. Gasparini was granted 1,000,000 Incentive Stock Options that have a ten year term so long as Mr. Gasparini remains an employee of the Company (these options, which vest according to the passage of time and other performance-based milestones, have and will continue to result in us recording stock based compensation expense). Mr. Gasparini's employment agreement also specifies that he is entitled to four weeks of paid vacation per year and other health insurance and relocation benefits. In the event that Mr. Gasparini is terminated without cause by the Company, the Company has agreed to pay Mr. Gasparini's base salary and maintain his employee benefits for a period of six months.

Litigation

We are potentially subject to various claims and litigation arising out of the ordinary course and conduct of our business including product liability, intellectual property, labour and employment, environmental and tax matters. We do not consider our exposure to such claims and litigation to be material to the consolidated financial statements.

NOTE G- OTHER RELATED PARTY TRANSACTIONS

During 2005 and 2004, Steven C. Jones, a director of the Company, earned $51,000 and $72,500, respectively, in cash for various consulting work performed in connection with his duties as Acting Principal Financial Officer.

On April 15, 2003, we entered into a revolving credit facility with MVP 3, LP (MVP 3), a partnership controlled by certain of our shareholders. Under the terms of the agreement MVP 3, LP agreed to make available to us up to $1.5 million of debt financing with a stated interest rate of prime + 8% and such credit facility had an initial maturity of March 31, 2005. At December 31, 2004, we owed MVP 3, approximately $740,000 under this loan agreement. This obligation was repaid in full through a refinancing on March 23, 2005.

On March 23, 2005, we entered into an agreement with Aspen Select Healthcare, LP (formerly known as MVP 3, LP) (Aspen) to refinance our existing indebtedness of $740,000 and provide for additional liquidity of up to $760,000 to the Company. Under the terms of the agreement, Aspen, a Naples, Florida-based private investment fund made available to us up to $1.5 million of debt financing in the form of a revolving credit facility (the Credit Facility) with an initial maturity of March 31, 2007. Aspen is managed by its General Partner, Medical Venture Partners, LLC, which is controlled by a director of NeoGenomics. We incurred $53,587 of transaction expenses in connection with establishing the Credit Facility, which have been capitalized and are being amortized to interest expense over the term of the agreement. As part of this transaction, we issued a five year warrant to Aspen to purchase up to 2,500,000 shares of common stock at an initial exercise price of $0.50/share, all of which are currently vested. We accrued $131,337 for the value of such Warrant as of the original commitment date as a discount to the face amount of the Credit Facility. The Company is amortizing such discount to interest expense over the 24 months of the Credit Facility. As of December 31, 2005, $1,500,000 was available for use and $1,500,000 had been drawn.

In addition, as a condition to these transactions, the Company, Aspen and certain individual shareholders agreed to amend and restate their shareholders agreement to provide that Aspen

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will have the right to appoint up to three of seven of our directors and one mutually acceptable independent director. We also amended and restated a Registration Rights Agreement, dated March 23, 2005 with Aspen and certain individual shareholders, which grants to Aspen certain demand registration rights (with no provision for liquidated damages) and which grants to all parties to the agreement, piggyback registration rights.

On March 11, 2005, we entered into an agreement with HCSS, LLC and eTelenext, Inc. to provide eTelenext, Inc s Accessioning Application, AP Anywhere Application and CMQ Application. HCSS, LLC is a holding company created to build a small laboratory network for the 50 small commercial genetics laboratories in the United States. HCSS, LLC is owned 66.7% by Dr. Michael T. Dent, our Chairman. Under the terms of the agreement, the Company paid $22,500 over three months to customize this software and will pay an annual membership fee of $6,000 per year and monthly transaction fees of between $2.50 - $10.00 per completed test, depending on the volume of tests performed. The eTelenext system is an elaborate laboratory information system (LIS) that is in use at many larger labs. By assisting in the formation of the small laboratory network, the Company will be able to increase the productivity of its technologists and have on-line links to other small labs in the network in order to better manage its workflow.

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 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. Aspen was also given the right, and as mentioned below, exercised such right, to purchase up to $200,000 of restricted shares of the Company's 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 the Company's common stock at an exercise price of $0.26/share in connection with such purchase (the "Equity Purchase Rights"). Aspen and the Company will 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 shall have the right, until April 30, 2006, to provide up to $200,000 of additional secured indebtedness to the Company under the Credit Facility Amendment and receive a five year warrant to purchase up to 450,000 shares of the Company's common stock with an exercise price of $0.26/share (the "New Debt Rights"); (f) the Company has 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") shall be vested and the exercise price per share shall be reset to $0.31 per share; and (g) the Company has 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.

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. 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 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.

NOTE H EQUITY FINANCING TRANSACTIONS

During 2004, we sold 3,040,000 shares of our common stock in a series of private placements at $0.25/share to unaffiliated third party investors. These transactions generated net proceeds to the Company of approximately $740,000 after deducting certain transaction expenses. Under the terms of the stock purchase agreements used in these transactions, the Company agreed to file with the SEC, and to cause to be declared effective thereafter, a SB-2 resale registration statement which includes the shares purchased by such third party investors. The company filed a resale registration statement on July 28, 2005, which was declared effective by the SEC on August 1, 2005.

On January 3, 2005, we issued 27,288 shares of common stock under the Company s 2003 Equity Incentive Plan to two employees of the Company in satisfaction of $6,822 of accrued, but unpaid vacation.

During the period from January 1, 2005 to May 31, 2005, we sold 522,382 shares of our common stock in a series of private placements at $0.30 per share and $0.35 per share to unaffiliated third party investors. These transactions generated net proceeds to the Company of approximately $171,000.

On June 6, 2005, we entered into a Standby Equity Distribution Agreement with Cornell Capital Partners, LP (Cornell). Pursuant to the Standby Equity Distribution Agreement, the Company may, at its discretion, periodically sell to Cornell shares of common stock for a total purchase price of up to $5.0 million. For each share of common stock purchased under the Standby Equity Distribution Agreement, Cornell will pay the Company 98% of the lowest volume weighted average price (VWAP) of the Company s common stock as quoted by Bloomberg, LP on the Over-the-Counter Bulletin Board or other principal market on which the Company s common stock is traded for the 5 days immediately following the notice date (the Purchase Price). The total number of shares issued to Cornell under each advance request will be equal to the total dollar amount of the advance request divided by the Purchase Price determined during the five day pricing period. Cornell will also retain 5% of each advance under the Standby Equity Distribution Agreement. Cornell s obligation to purchase shares of the Company s common stock under the Standby Equity Distribution Agreement is subject to certain conditions, including the Company maintaining an effective registration statement for shares of common stock sold under the Standby Equity Distribution Agreement and is limited to $750,000 per weekly advance. The amount and timing of all advances under the Standby Equity Distribution Agreement are at the discretion of the Company and the Company is not obligated to issue and sell any securities to Cornell, unless and until it decides to do so. Upon execution of the Standby Equity Distribution Agreement, Cornell received 381,888 shares of the Company s common stock as a commitment fee under the Standby Equity Distribution

Agreement. The Company also issued 27,278 shares of the Company s common stock to Spartan Securities Group, Ltd. under a placement agent agreement relating to the Standby Equity Distribution Agreement.

On July 1, 2005, we issued 14,947 shares of our common stock under the Company s 2003 Equity Incentive Plan to two employees of the Company in satisfaction of $4,933 of accrued, but unpaid vacation.

On July 28, 2005, we filed an amended SB-2 registration statement with the Securities and Exchange Commission to register 10,000,000 shares of our common stock related to the Standby Equity Distribution Agreement. Such registration statement became effective as of August 1, 2005.

On August 29, 2005, we requested a $25,000 advance on our Standby Equity Distribution Agreement with Cornell. The advance was completed to provide funding for general corporate purposes. The advance was completed on September 8, 2005 and resulted in the sale of 63,776 shares of common stock. Our net proceeds were $23,250 after deducting $1,250 in fees to Cornell and a $500 escrow agent fee to Yorkville Advisors Management, LLC.

On December 10, 2005, we requested a $50,000 advance on our Standby Equity Distribution Agreement with Cornell. The advance was completed to provide funding for general corporate purposes. The advance was completed on December 18, 2005 and resulted in the sale of 241,779 shares of common stock. Our net proceeds were $47,000 after deducting $2,500 in fees to Cornell and a $500 escrow agent fee to Yorkville Advisors Management, LLC.

On December 15, 2005, we issued 18,000 shares of common stock under the Company s 2003 Equity Incentive Plan to employees of the Company as part of a year-end bonus program. The shares were issued at a price of $0.21/share and resulted in an expense to the Company of $3,780.

NOTE I - SUBSEQUENT EVENTS

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 has 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 shall have the right, up to April 30, 2006, to purchase up to $200,000 of restricted shares of the Company's 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 the Company's 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 does not exercise its Equity Purchase Rights in total, the Company shall have the right to sell the difference to SKL at terms no more favorable than Aspen's Equity Purchase Rights; (d) Aspen and the Company will 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 shall have the right, until April 30, 2006, to provide up to $200,000 of additional secured indebtedness to the Company under the Credit Facility Amendment and receive a five year warrant to purchase up to 450,000 shares of the Company's common stock with an exercise price of $0.26/share (the "New Debt Rights"); (f) the Company has agreed to amend and restate that certain warrant

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agreement, dated March 23, 2005 to provide that all 2,500,000 warrant shares (the "Existing Warrants") shall be vested and the exercise price per share shall be reset to $0.31 per share; and (g) the Company has 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.

Under the terms of the contemplated Credit Facility Amendment, Aspen and the Company have agreed as follow:

(1) The maturity date of the Credit Facility shall be extended to September 30, 2007.

(2) Paragraph 11 of the existing Loan Agreement (Borrower's Negative Covenants) shall be amended to allow for Permitted Indebtedness of up to a total of $500,000 of vendor and lease financing on capital equipment, including straight vendor financing and both operating and capital lease financing, in the aggregate at any given time during the term of the Credit Facility (the "Capital Equipment Financing Basket") and allow for Permitted Liens on such equipment.

(3) The Permitted Indebtedness section of paragraph 11 of the Loan Agreement shall be amended to allow for an aggregate of up to $400,000 of convertible draw notes from Cornell Capital Partners LP during the life of the Credit Facility (unless the proceeds of such Cornell convertible draw notes are used to repay the Company's indebtedness to Aspen); provided that such convertible draw notes contain an option for a fixed price conversion at any time and have a term of no longer than six months unless the proceeds of such convertible draw notes are used to pay-off the Credit Facility.

(4) The definition of Permitted Indebtedness in paragraph 11 of the Loan Agreement shall be amended to allow for real estate leases entered into by the Company, provided that such real estate leases have been approved by the Board of Directors and contain no more than $100,000 of leasehold improvements embedded within the lease stream.

(5) The structure of the Credit Facility shall be amended so that it is a draw facility whereby once principal payments have been made to Aspen by the Company, the Company can no longer draw such amounts and that portion of the availability will expire. The parties agree that all principal payments from the Company will retire the unsecured portion of the Credit Facility first.

(6) The Company and Aspen agree to such other amendments to the Credit Facility documents as may be mutually agreed upon, including, but not limited to a clarification of Paragraph 16 of the Loan Agreement to include a provision that if the Company does not properly notify Aspen of an event of default, that is in and of itself a default and that the date of such default will be deemed to be the first date which circumstances gave rise to the event of default for purposes of calculating the 30 day cure period, and further that Aspen may so notify the Company of this type of default or any other type of default that may have occurred.

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.

On January 21, 2006 the Company entered into a subscription agreement (the "Subscription")

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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. 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.

End of Financial Statements

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ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

ITEM 8A. CONTROLS AND PROCEDURES

(A) Evaluation Of Disclosure Controls And Procedures

As of the end of the period covered by this report, the Company carried out an evaluation, under the supervision and with the participation of the Company s Principal Executive Officer and Acting Principal Financial Officer of the effectiveness of the design and operation of the Company s disclosure controls and procedures. The Company s disclosure controls and procedures are designed to provide a reasonable level of assurance of achieving the Company s disclosure control objectives. The Company s Principal Executive Officer and Acting Principal Financial Officer have concluded that the Company s disclosure controls and procedures are, in fact, effective at this reasonable assurance level as of the period covered. In addition, the Company reviewed its internal controls, and there have been no significant changes in its internal controls or in other factors that could significantly affect those controls subsequent to the date of their last evaluation or from the end of the reporting period to the date of this Form 10-KSB.

(B) Changes In Internal Controls Over Financial Reporting

In connection with the evaluation of the Company s internal controls during the Company s fourth fiscal quarter ended December 31, 2005, the Company s Principal Executive Officer and Acting Principal Financial Officer have determined that there are no changes to the Company s internal controls over financial reporting that has materially affected, or is reasonably likely to materially effect, the Company s internal controls over financial reporting.

PART III

ITEM 9. DIRECTORS, EXECUTIVE OFFICERS, PROMOTORS AND CONTROL PERSONS; COMPLIANCE WITH SECTION 16(a) OF THE EXCHANGE ACT

The following table sets forth certain information regarding our members of the Board of Directors and other executives as of February 28, 2006:

Name	Age	Position
Board of Directors:		
Robert P. Gasparini	51	President and Chief Science Officer, Board Member
Steven C. Jones	42	Acting Principal Financial Officer, Board Member
Michael T. Dent	41	Chairman of the Board
Thomas D. Conrad	75	Board Member
George G. O Leary	43	Board Member
Peter M. Peterson	49	Board Member
Other Executives:		
Jimmy W. Bryan	36	Director of Sales
Jerome J. Dvonch	37	Director of Finance
Thomas J. Schofield	27	Diretor of Operations

There are no family relationships between or among the members of the Board of Directors or other executives. With the exception of Mr. Peterson, the directors and other executives of the Company are not directors or executive officers of any company that files reports with the SEC. Mr. Peterson also serves as Chairman of the Board of Innovative Software Technologies, Inc. (OTC BB: INIV). None of the members of the Board of Directors or other executives has been involved in any bankruptcy proceedings, criminal proceedings, any proceeding involving any possibility of enjoining or suspending members of the Company s Board of Directors or other executives from engaging in any business, securities or banking activities, and have not been found to have violated, nor been accused of having violated, any federal or state securities or commodities laws.

Members of the Company s Board of Directors are elected at the annual meeting of stockholders and hold office until their successors are elected. The Company s officers are appointed by the Board of Directors and serve at the pleasure of the Board and are subject to employment agreements, if any, approved and ratified by the Board.

Robert P. Gasparini, M.S. President and Chief Science Officer, Board Member

Mr. Gasparini is the President and Chief Science Officer of NeoGenomics. Prior to assuming the role of President and Chief Science Officer, Mr. Gasparini was a consultant to the Company since May 2004. Prior to NeoGenomics, Mr. Gasparini was the Director of the Genetics Division for US Pathology Labs, Inc. (US Labs) from January 2001 to December 2004. During this period, Mr. Gasparini started the Genetics Division for US Labs and grew annual revenues of this division to $30 million over a 30 month period. Prior to US Labs, Mr. Gasparini was the Molecular Marketing Manager for Ventana Medical Systems from 1999 to

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2001. Prior to Ventana, Mr. Gasparini was the Assistant Director of the Cytogenetics Laboratory for the Prenatal Diagnostic Center from 1993 to 1998 an affiliate of Mass General Hospital and part of Harvard University. While at the Prenatal Diagnostic Center, Mr. Gasparini was also an Adjunct Professor at Harvard University. Mr. Gasparini is a licensed Clinical Laboratory Director and an accomplished author in the field of Cytogenetics. He received his BS degree from The University of Connecticut in Biological Sciences and his Master of Health Science degree from Quinnipiac University in Laboratory Administration.

Steven C. Jones Acting Principal Financial Officer, Board Member

Mr. Jones has served as a director since October 2003. He is a Managing Director in Medical Venture Partners, LLC, a venture capital firm established in 2003 for the purpose of making investments in the healthcare industry. Mr. Jones is also the co-founder and Chairman of the Aspen Capital Group and has been President and Managing Director of Aspen Capital Advisors since January 2001. Prior to that Mr. Jones was a chief financial officer at various public and private companies and was a Vice President in the Investment Banking Group at Merrill Lynch & Co. Mr. Jones received his B.S. degree in Computer Engineering from the University of Michigan in 1985 and his MBA from the Wharton School of the University of Pennsylvania in 1991. He is also Chairman of the Board of Quantum Health Systems, LLC and T3 Communications, LLC.

Michael T. Dent M.D. Chairman of the Board

Dr. Dent is our founder and Chairman of the Board. Dr. Dent was our President and Chief Executive Officer from June 2001, when he founded NeoGenomics, to April 2004. From April 2004 until April 2005, Dr. Dent served as our President and Chief Medical Officer. Dr. Dent founded the Naples Women's Center in 1996 and continues his practice to this day. He received his training in Obstetrics and Gynecology at the University of Texas in Galveston. He received his M.D. degree from the University of South Carolina in Charleston, S.C. in 1992 and a B.S. degree from Davidson College in Davidson, N.C. in 1986. He is a member of the American Association of Cancer Researchers and a Diplomat and fellow of the American College of Obstetricians and Gynecologists. He sits on the Board of the Florida Life science Biotech Initiative.

Thomas D. Conrad, PhD. Board Member

Dr. Conrad is a Director of NeoGenomics. During his 50-year professional career, he has been involved in starting and operating numerous businesses. He is currently and for the last five years has been the President of Financial Management Corporation, which acts as the General Partner for Competitive Capital Partners, LP, a Naples, Florida-based hedge fund. Prior to his involvement in the fund management business, Dr. Conrad was involved with, among others The Military Benefit Association and The Government Employees Association, both large life insurance companies. Dr. Conrad has taught at five universities, been a cattleman, an Army pilot and a restaurateur. Before coming to Florida he was a member of the Reagan Administration as an Assistant Secretary of the United States Air Force. Dr. Conrad has a BS and an MBA from the University of Maryland and received his PhD. in Business from the American University.

George G. O Leary Board Member

Mr. O Leary is a Director of NeoGenomics and is currently the President of US Medical Consultants, LLC. Prior to assuming his duties with US Medical, he was a consultant to the company and acting Chief Operating Officer. Prior to NeoGenomics, Mr. O Leary was the President and CFO of Jet Partners, LLC from 2002 to 2004. During that time he grew annual revenues from $12 million to $17.5 million. Prior to Jet Partners, Mr. O Leary was CEO and President of Communication Resources Incorporated (CRI) from 1996 to 2000. During that time he grew annual revenues from $5 million to $40 million. Prior to CRI, Mr. O Leary held various positions including VP of Operations for Cablevision Industries from 1987 to 1996. Mr. O Leary was a CPA with Peat Marwick Mitchell from 1984 to 1987. He received his BBA in Accounting from Siena College in Albany, New York.

Peter M. Peterson Board Member

Mr. Peterson is a Director of NeoGenomics and is the founder of Aspen Capital Partners, LLC which specializes in capital formation, mergers & acquisitions, divestitures, and new business start-ups. Mr. Peterson is also the Chairman and Founder of CleanFuel USA and the Chairman of Innovative Software Technologies (OTCBB: INIV). Prior to forming Aspen Capital Partners, Mr. Peterson was Managing Director of Investment Banking with H. C. Wainwright & Co. Prior to Wainwright, Mr. Peterson was president of First American Holdings and Managing Director of Investment Banking. Previous to First American, he served in various investment banking roles and was the co-founder of ARM Financial Corporation. Mr. Peterson was one of the key individuals responsible for taking ARM Financial public on the OTC market and the American Stock Exchange. Under Mr. Peterson s financial leadership, ARM Financial Corporation was transformed from a diversified holding company into a national clinical laboratory company with more than 14 clinical laboratories and ancillary services with over $100 million in assets. He has also served as an officer or director for a variety of other companies, both public and private. Mr. Peterson earned a Bachelor of Science degree in Business Administration from the University of Florida.

Jimmy W. Bryan Director of Sales

Mr. Bryan has served as director of sales since August 2005. Prior to joining NeoGenomics, Mr. Bryan was National Director of Sales with American Esoteric Laboratories, a nationwide reference laboratory from March 2005 to May 2005. From January 1997 to March 2005, Mr. Bryan was employed with Dianon / Labcorp, where he held various positions including Divisional Manager for Anatomic Pathology Sales, Senior Regional Sales Manager, National Sales Trainer & Recruiter and Senior Sales Representative Mr. Bryan has managed a sales force of 32 people, has had responsibility for approximately $38 million in annual revenue and has been a strategic team member of with 6 laboratory acquisitions. Mr. Bryan has over 13 years of sales and marketing experience with 9 years in the medical industry. Mr. Bryan received his bachelor degree from Union University in Tennessee.

Jerome J. Dvonch Director of Finance

Mr. Dvonch has served as director of finance since August 2005. From June 2004 through July 2005, Mr. Dvonch was Associate Director of Financial Planning and Analysis with Protein Design Labs, a bio-pharmaceutical company. From September 2000 through June 2004, Mr. Dvonch held positions of increasing responsibility including Associate Director of Financial Analysis and Reporting with Exelixis, Inc., a biotechnology company. He also was

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Manager of Business Analysis for Pharmchem Laboratories, a drug testing laboratory. Mr. Dvonch has extensive experience in strategic planning, SEC reporting and accounting in the life science industry. He also has experience in mergers and acquisitions and with debt/equity financing transactions. Mr. Dvonch is a Certified Public Accountant and received his M.B.A. from the Simon School of Business at the University of Rochester. He received his B.B.A. in accounting from Niagara University.

Thomas J. Schofield Director of Operations

Mr. Schofield has served as the Director of Operations since June 2005. Prior to NeoGenomics, Mr. Schofield was the Distribution Manager for Specialty Laboratories where he was responsible for the movement of more than 10,000 specimens daily. From June 2001 to August 2004, Mr. Schofield held several operational positions at US Pathology Labs, Inc. He was primarily responsible for establishing laboratory support teams by hiring, training and implementing new processes. During this period, US Labs grew revenue from $7 million to $70 million over a three year period. Mr. Schofield received an honorable discharge from the United States Marine Corps after eight total years of service.

Audit Committee

Currently, the Company s Audit Committee of the Board of Directors is comprised of Steven C. Jones and George O Leary. The Board of Directors believes that both Mr. Jones and Mr. O Leary are financial experts (as defined in Regulation 228.401(e)(1)(i)(A) of Regulation S-B). Mr. Jones is a Managing Member of Medical Venture Partners, LLC, which serves as the general partner of Aspen Select Healthcare LP, a partnership which controls approximately 41.8% of the voting stock of the Company. Thus Mr. Jones would not be considered an independent director under Item 7(d)(3)(iv) of Schedule 14A of the Securities Exchange Act of 1934 (the Act). However, Mr. O Leary would be considered an independent director under Item 7(d)(3)(iv) of Schedule 14A of the Act.

Compensation Committee

Currently, the Company s Compensation Committee of the Board of Directors is comprised of the Board Members except for Mr. Gasparini.

Code of Ethics

The Company adopted a Code of Ethics for its senior financial officers and the principal executive officer during 2004 as published in our 10KSB dated April 15, 2005.

ITEM 10. EXECUTIVE COMPENSATION

The following table provides certain summary information concerning compensation paid by the Company to or on behalf of our most highly compensated executive officers for the fiscal years ended December 31, 2005, 2004, and 2003:

Summary Compensation Table

Name and Principal Capacity	Year	Salary	Other Compensation
Robert P. Gasparini	2005	$162,897	$28,128 (1)
President & Chief Science Officer	2004	$ 22,500 (2)	--
	2003		
Steven Jones	2005	$ 51,000 (3)	-
Acting Principal Financial Officer and Director	2004	$ 72,500 (3)	-
	2003	$ 52,000 (3)	-
Dr. Michael T. Dent	2005	-	-
Chairman, President and	2004	$ 37,334 (5)	-
Chief Medical Officer (4)	2003	-	-

(1) Mr. Gasparini moved to Florida from California during 2005 and these represent his relocation expenses paid by the Company.
(2) Mr. Gasparini was appointed as President and Chief Science Officer on January 3, 2005. During 2004, he acted as a consultant to the Company and the amounts indicated represent his consulting income.
(3) Mr. Jones has acted as a consultant to the Company and the amounts indicated represent his consulting income.
(4) Dr. Dent served as the Company s Chief Executive Officer from June 2001 until April 2004. From April 2003 until April 2004, Dr. Dent served as the President and Chief Medical Officer. Dr. Dent has been Chairman of the Board since October 2003.
(5) During 2004, Dr. Dent acted as a consultant to the Company. The amounts indicated, represent his consulting income.

ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth information as of March 30, 2006, with respect to each person known by the Company to own beneficially more than 5% of the Company s outstanding common stock, each director and officer of the Company and all directors and executive officers of the Company as a group. The Company has no other class of equity securities outstanding other than common stock.

Title of Class	Name And Address Of Beneficial Owner	Amount and Nature Of Beneficial Ownership	Percent Of Class(1)
Common	Aspen Select Healthcare, LP (2) 1740 Persimmon Drive Naples, Florida 34109	14,453,279	48.55%
Common	Steven C. Jones (3) 1740 Persimmon Drive Naples, Florida 34109	15,655,172	52.54%
Common	Michael T. Dent M.D. (4) 1726 Medical Blvd. Naples, Florida 34110	2,793,527	10.52%
Common	Thomas D. Conrad (5) 81 Seagate Avenue, #1501 Naples, Florida 34103	800,000	3.05%
Common	George O Leary (6) 6506 Contempo Lane Boca Raton, Florida 33433	294,000	1.11%
Common	Robert P. Gasparini (7) 20205 Wildcat Run Estero, FL 33928	200,000	0.76%

Common	Peter M. Peterson (8) 2402 S. Ardson Place Tampa, FL 33629	14,453,279	48.55%
Common	SKL Family Limited Partnership (9) 984 Oyster Court Sanibel, FL 33957	2,900,000	10.75%
Common	Directors and Officers as a Group (2 persons)	19,742,699	64.80%

(1) Beneficial ownership is determined in accordance within the rules of the Commission and generally includes voting of investment power with respect to securities. Shares of

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common stock subject to securities exercisable or convertible into shares of common stock that are currently exercisable or exercisable within 60 days of March 15, 2006 are deemed to be beneficially owned by the person holding such options for the purpose of computing the percentage of ownership of such persons, but are not treated as outstanding for the purpose of computing the percentage ownership of any other person.

(2) Aspen Select Healthcare, LP (Aspen) has direct ownership of 10,903,279 shares and has certain warrants with 3,550,000 shares currently exercisable. The general partner of Aspen is Medical Venture Partners, LLC, an entity controlled by Steven C. Jones.

(3) Steven C. Jones, director of the Company, has direct ownership of 1,174,595 shares and currently exercisable warrants to purchase an additional 27,298 shares, but as a member of the general partner of Aspen, he has the right to vote all shares held by Aspen, thus 10,903,279 shares and 3,550,000 currently exercisable warrant shares have been added to his total.

(4) Michael T. Dent, a director of the Company, has direct ownership of 2,470,535 shares, currently exercisable warrants to purchase 72,992 shares, and currently exercisable options to purchase 250,000 shares.

(5) Thomas D. Conrad, a director of the Company, is President of the General Partner of Competitive Capital Partners, LP, which owns 800,000 shares. Since Mr. Conrad has the right to vote all shares held by Competitive Capital Partners, LP, these shares have been added to his total.

(6) George O Leary, a director of the Company, has direct ownership of 244,000 warrants, all of which are currently exercisable. On March 23, 2006 George O Leary exercised 144,000 warrants in return for freely tradable shares.

(7) Robert Gasparini, President of the Company, has 1,000,000 options to purchase shares, of which 200,000 are currently exercisable.

(8) Peter M. Peterson is a member of the general partner of Aspen and has the right to vote all shares held by Aspen. Thus 10,903,279 shares and 3,550,000 currently exercisable warrant shares have been added to his total. Mr. Peterson does not own any other stock of the Company except through his affiliation with Aspen.

(8) SKL Family Limited Partnership has direct ownership of 2,000,000 shares and currently exercisable warrants to purchase 900,000 shares.

ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

During 2005 and 2004, Steven C. Jones, a director of the Company, earned $51,000 and $72,500, respectively, in cash for various consulting work performed connection with his duties as Acting Principle Financial Officer.

On April 15, 2003, we entered into a revolving credit facility with MVP 3, LP (MVP 3), a partnership controlled by certain of our shareholders. Under the terms of the agreement MVP 3, LP agreed to make available up to $1.5 million of debt financing with a stated interest rate of prime + 8% and such credit facility had an initial maturity of March 31, 2005. At December 31, 2004, we owed MVP 3, approximately $740,000 under this loan agreement, which is classified as Due to affiliates under the current liabilities section of our balance sheet for FY 2004. This obligation was repaid in full through a refinancing on March 23, 2005.

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On January 18, 2006, George O Leary, a director received from the Company 50,000 incentive stock options at $0.26 per share in compensation for services related to the Equity and Debt Financing the company completed in January 2006.

On March 11, 2005, we entered into an agreement with HCSS, LLC and eTelenext, Inc. to provide eTelenext, Inc s Accessioning Application, AP Anywhere Application and CMQ Application. HCSS, LLC is a holding company created to build a small laboratory network for the 50 small commercial genetics laboratories in the United States. HCSS, LLC is owned 66.7% by Dr. Michael T. Dent, our Chairman. By becoming the first customer of HCSS in the small laboratory network, the Company saved approximately $152,000 in up front licensing fees. Under the terms of the agreement, the Company paid $22,500 over three months to customize this software and will pay an annual membership fee of $6,000 per year and monthly transaction fees of between $2.50 - $10.00 per completed test, depending on the volume of tests performed. The eTelenext system is an elaborate laboratory information system (LIS) that is in use at many larger labs. By assisting in the formation of the small laboratory network, the Company will be able to increase the productivity of its technologists and have on-line links to other small labs in the network in order to better manage its workflow.

On March 23, 2005, we entered into an agreement with Aspen Select Healthcare, LP (formerly known as MVP 3, LP) (Aspen) to refinance our existing indebtedness of $740,000 and provide for additional liquidity of up to $760,000 to the Company. Under the terms of the agreement, Aspen, a Naples, Florida-based private investment fund made available up to $1.5 million of debt financing in the form of a revolving credit facility (the Credit Facility) with an initial maturity of March 31, 2007. Aspen is managed by its General Partner, Medical Venture Partners, LLC, which is controlled by a director of NeoGenomics. We incurred $53,587 of transaction expenses in connection with establishing the Credit Facility, which have been capitalized and are being amortized to interest expense over the term of the agreement. As part of this transaction, we issued a five year warrant to Aspen to purchase up to 2,500,000 shares of common stock at an initial exercise price of $0.50/share, all of which are currently vested. We accrued $131,337 for the value of such Warrant as of the original commitment date as a discount to the face amount of the Credit Facility. The Company is amortizing such discount to interest expense over the 24 month of the Credit Facility. As of December 31, 2005, $1,500,000 was available for use and $1,500,000 had been drawn.

In addition, as a condition to these transactions, the Company, Aspen and certain individual shareholders agreed to amend and restate their shareholders agreement to provide that Aspen will have the right to appoint up to three of seven of our directors and one mutually acceptable independent director. We also amended and restated a Registration Rights Agreement, dated March 23, 2005 with Aspen and certain individual shareholders, which grants to Aspen certain demand registration rights and which grants to all parties to the agreement, piggyback registration rights.

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 has 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 shall have the right, up to April 30, 2006, to purchase up to $200,000 of restricted shares of the Company's 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 the

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Company's 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 does not exercise its Equity Purchase Rights in total, the Company shall have the right to sell the difference to SKL at terms no more favorable than Aspen's Equity Purchase Rights; (d) Aspen and the Company will 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 shall have the right, until April 30, 2006, to provide up to $200,000 of additional secured indebtedness to the Company under the Credit Facility Amendment and receive a five year warrant to purchase up to 450,000 shares of the Company's common stock with an exercise price of $0.26/share (the "New Debt Rights"); (f) the Company has 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") shall be vested and the exercise price per share shall be reset to $0.31 per share; and (g) the Company has 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.

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. 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.

PART IV

ITEM 13. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(a) Exhibits

The following exhibits are filed (or incorporated by reference herein) as part of this Form 10-KSB.

EXHIBIT NO.	DESCRIPTION	LOCATION
3.1	Articles of Incorporation, as amended	Incorporated by reference to the Company s Registration Statement on Form SB-2 as filed with the United States Securities and Exchange Commission on February 10, 1999
3.2	Amendment to Articles of Incorporation filed with the Nevada Secretary of State on January 3, 2003.	Incorporated by reference to the Company s on Form 10-KSB as filed with the United States Securities and Exchange Commission on May 20, 2003
3.3	Amendment to Articles of Incorporation filed with the Nevada Secretary of State on April 11, 2003.	Incorporated by reference to the Company s on Form 10-KSB as filed with the United States Securities and Exchange Commission on May 20, 2003
3.4	Amended and Restated Bylaws, dated April 15, 2003.	Incorporated by reference to the Company s on Form 10-KSB as filed with the United States Securities and Exchange Commission on May 20, 2003
10.1	Amended and Restated Loan Agreement between NeoGenomics, Inc. and Aspen Select Healthcare, L.P., dated March 30, 2006	Provided herewith
10.2	Amended and Restated Registration Rights Agreement between NeoGenomics, Inc. and Aspen Select Healthcare, L.P. and individuals dated March 23, 2005	Incorporated by reference to the Company s on Form 8-K as filed with the United States Securities and Exchange Commission on March 30, 2005
10.3	Guaranty of NeoGenomics, Inc., dated March 23, 2005	Incorporated by reference to the Company s on Form 8-K as filed with the United States Securities and Exchange Commission on March 30, 2005
10.4	Stock Pledge Agreement between NeoGenomics, Inc. and Aspen Select Healthcare, L.P., dated March 23, 2005	Incorporated by reference to the Company s on Form 8-K as filed with the United States Securities and Exchange Commission on March 30, 2005
10.5	Amended and Restated Warrant Agreement between NeoGenomics, Inc. and Aspen Select Healthcare, L.P., dated January 21, 2006	Provided herewith
10.6	Amended and Restated Security Agreement between NeoGenomics, Inc. and Aspen Select Healthcare, L.P., dated March 30, 2006	Provided herewith

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10.7	Employment Agreement, dated December 14, 2005, between Mr. Robert P. Gasparini and the Company	Incorporated by reference to the Company s on Form 10-KSB as filed with the United States Securities and Exchange Commission on April 15, 2005
10.8	Registration Rights Agreement between NeoGenomics, Inc. and Aspen Select Healthcare, L.P., dated March 30, 2006	Provided herewith
10.9	Warrant Agreement between NeoGenomics, Inc. and SKL Family Limited Partnership, L.P. issued January 23, 2006	Provided herewith
10.10	Warrant Agreement between NeoGenomics, Inc. and Aspen Select Healthcare, L.P. issued March 14, 2006	Provided herewith
10.11	Warrant Agreement between NeoGenomics, Inc. and Aspen Select Healthcare, L.P. issued March 30, 2006	Provided herewith
14.1	NeoGenomics, Inc. Code of Ethics for Senior Financial Officers and the Principal Executive Officer	Incorporated by reference to the Company s on Form 10-KSB as filed with the United States Securities and Exchange Commission on April 15, 2005
31.1	Certification by Principal Executive Officer pursuant to 15 U.S.C. Section 7241, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Provided herewith
31.2	Certification by Principal Financial Officer pursuant to 15 U.S.C. Section 7241, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Provided herewith
32.1	Certification by Principal Executive Officer and Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	Provided herewith

(b) Reports on Form 8-K.

On January 24, 2006, we filed a report on Form 8-K announcing that the Company had obtained a $400,000 of new equity financing and that it had entered into a binding agreement with respect to amending its existing Credit Facility with Aspen Select Healthcare, LP.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Summarized below is the aggregate amount of various professional fees billed by our principal accountants with respect to our last two fiscal years:

	2005	2004
Audit fees	$ 28,000	$ 13,620
Audit-related fees	$	$
Tax fees	$ 2,000	$ 4,460
All other fees, including tax consultation and preparation	$	$

All audit fees are approved by our audit committee and board of directors. Other than income tax preparation services, Kingery & Crouse, P.A. does not provide any non-audit services to the Company.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Company has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized March 31, 2006.

NeoGenomics, Inc.

By: /s/ *Robert P. Gasparini*

Robert P. Gasparini

President and

Principal Executive Officer

Date: March 31, 2006

By: /s/ *Steven C. Jones*

Steven C. Jones

Acting Principal Financial Officer

Date: March 31, 2006

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

SIGNATURE	TITLE	DATE
/s/ *Michael T. Dent* Michael T. Dent, M.D.	Chairman of the Board	March 31, 2006

/s/ Robert P. Gasparini Robert P. Gasparini	President and Director	March 31, 2006
/s/ Steven C. Jones Steven C. Jones	Director	March 31, 2006
/s/ Thomas Conrad Thomas D. Conrad	Director	March 31, 2006
/s/ George O Leary George O Leary	Director	March 31, 2006
/s/ Peter M. Petersen Peter Petersen	Director	March 31, 2006

EXHIBIT 31.1

CERTIFICATION PURSUANT TO

SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Robert P. Gasparini, Principal Executive Officer, certify that:

1. I have reviewed this annual report on Form 10-KSB of NeoGenomics, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the small business issuer as of, and for, the periods presented in this report;

4. The small business issuer s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the small business issuer and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the small business issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Omitted;

(c) Evaluated the effectiveness of the small business issuer s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the small business issuer s internal control over financial reporting that occurred during the small business issuer s most recent fiscal quarter (the small business issuer s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the small business issuer s internal control over financial reporting; and

5. The small business issuer s other certifying officer(s) and I have disclosed, based on my most recent evaluation of internal control over financial reporting, to the small business issuer s auditors and the audit committee of the small business issuer s board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the small business issuer s ability to record, process, summarize and report financial information; and

(b)

Any fraud, whether or not material, that involves management or other employees who have a significant role in the small business issuer s internal control over financial reporting.

Date: March 31, 2006	By: */s/ Robert P. Gasparini*
	Name: Robert P. Gasparini
	Title: President and Principal Executive Officer

*The introductory portion of paragraph 4 of the Section 302 certification that refers to the certifying officers responsibility for establishing and maintaining internal control over financial reporting for the company, as well as paragraph 4(b), have been omitted in accordance with Release No. 33-8545 (March 2, 2005) because the compliance period has been extended for small business issuers until the first fiscal year ending on or after July 15, 2006.

EXHIBIT 31.2

CERTIFICATION PURSUANT TO

SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Steven C. Jones, Principal Financial Officer, certify that:

1. I have reviewed this annual report on Form 10-KSB of NeoGenomics, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the small business issuer as of, and for, the periods presented in this report;

4. The small business issuer s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the small business issuer and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the small business issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Omitted;

(c) Evaluated the effectiveness of the small business issuer s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the small business issuer s internal control over financial reporting that occurred during the small business issuer s most recent fiscal quarter (the small business issuer s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the small business issuer s internal control over financial reporting; and

5. The small business issuer s other certifying officer(s) and I have disclosed, based on my most recent evaluation of internal control over financial reporting, to the small business issuer s auditors and the audit committee of the small business issuer s board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the small business issuer s ability to record, process, summarize and report financial information; and

(b)

Any fraud, whether or not material, that involves management or other employees who have a significant role in the small business issuer s internal control over financial reporting.

Date: March 31, 2006	By:	<u>*/s/ Steven C. Jones*</u>
	Name:	Steven C. Jones
	Title:	Acting Principal Financial Officer

*The introductory portion of paragraph 4 of the Section 302 certification that refers to the certifying officers responsibility for establishing and maintaining internal control over financial reporting for the company, as well as paragraph 4(b), have been omitted in accordance with Release No. 33-8545 (March 2, 2005) because the compliance period has been extended for small business issuers until the first fiscal year ending on or after July 15, 2006.

EXHIBIT 32.1

CERTIFICATION PURSUANT TO

18 U.S.C. SECTION 1350

AS ADOPTED PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of NeoGenomics, Inc. (the Company) on Form 10-KSB for the fiscal year ended December 31, 2005 as filed with the Securities and Exchange Commission on the date hereof (the Report), the undersigned, in the capacities and on the dates indicated below, hereby certifies pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to his knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operation of the Company.

Date: March 31, 2006 ______*/s/ Robert P. Gasparini*______
Robert P. Gasparini

President and
Principal Executive Officer

Date: March 31, 2006 ______*/s/ Steven C. Jones*__
Steven C. Jones

Acting Principal Financial Officer

A signed original of this written statement required by Section 906, or other document authentications, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.