MPHASE TECHNOLOGIES INC
Form DEF 14A
November 24, 2009

DEFINITIVE/ PROXY STATEMENT

DEFINITIVE **COPY**

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

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934

Filed by the Registrant x
Filed by a Party other than the Registrant o

Check the appropriate box:

£	Preliminary Proxy Statement	o	**Confidential, for use of the Commission only**
Q	Definitive Proxy Statement		
£	Definitive Additional Materials		
£	Soliciting Material Pursuant to Rule 14A-ll(c) or Rule 14a-12		

<u>mPhase Technologies, Inc.</u>
(Name of Registrant as Specified In Its Charter)

<u>mPhase Technologies, Inc.</u>
(Name of Person(s) Filing Proxy Statement)

Payment of Filing Fee (Check the appropriate box):

Q No fee required

£ Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

£ Fee paid previously with definitive materials:

£ Check box if any part of the fee is offset as provided by Exchange Act Rule 0-ll(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the form or schedule and the date of its filing.

(1) Amount Previously Paid: $

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

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1 Set forth the amount on which the filing fee is calculated and state how it was determined.

DEFINITIVE **COPY**

mPHASE TECHNOLOGIES, INC.
587 CONNECTICUT AVENUE
NORWALK, CONNECTICUT 06854-1711
NOTICE OF ANNUAL MEETING OF SHAREHOLDERS
FOR FISCAL YEAR ENDED JUNE 30,2008
TO BE HELD WEDNESDAY JANUARY 20, 2010

The Annual Shareholders Meeting of mPhase Technologies, Inc. for fiscal year ended June 30, 2008 will be held at our offices at 587 Connecticut Avenue, Norwalk, CT 06854, on Wednesday January 20, 2010, at 10:00 a.m. local time, for the purpose of considering and voting upon:

(1)

A proposal to elect six (6) Directors to hold office until our next Annual Meeting.

(2)

A proposal to ratify the appointment of Rosenberg, Rich Baker Berman. &Company as the independent accountants for the our 2009 fiscal year commencing July 1,2008 through June 30, 2009.

(3)

A proposal to approve and adopt an amendment to our Amended Certificate of Incorporation to increase the number of authorized shares of common stock from 2,000,000,000 to 3,000,000,000 shares.

(4)

Such other business as may properly come before the meeting and any adjournment thereof.

The above items are more fully described in the attached Proxy Statement. Only shareholders of record at the close of business on November 25, 2009 are entitled to notice of and to vote at the meeting or any adjournment or postponement thereof. A list of stockholders as of the record date will be available for inspection by stockholders at our corporate headquarters during business hours for a period of 10 days before the meeting.

By Order of the Board of Directors
Gustave T. Dotoli
Corporate Secretary

December 3, 2009

IMPORTANT

Whether or not you expect to be present at the meeting, PLEASE FILL IN, SIGN, DATE AND MAIL THE ENCLOSED PROXY as promptly as possible in order to save us further solicitation expense. Shareholders of record attending the meeting may revoke their proxies at that time and personally vote all matters under consideration. There is an addressed envelope enclosed with the Proxy for which no postage is required if mailed in the United States.

*** Exercise Your *Right* to Vote ***

IMPORTANT NOTICE

Regarding the Availability of Proxy Materials

MPHASE TECHNOLOGIES, INC.

Meeting Information

Meeting Type*: Annual Meeting*
For holders as of: November 25, 2009
Date: *January 25, 2010* ***Time:*** *10:00 AM EST*
Location: *mPhase Technologies, Inc.*
587 Connecticut Avenue
Norwalk, CT 06854

You are receiving this communication because you hold Shares in the above named company.

This is not a ballot. You cannot use this notice to vote these shares. This communication presents only an overview of the more complete proxy materials that are available to you on the Internet. You may view the proxy materials online at

www.proxyvote.com or easily request a paper copy (see reverse side).

We encourage you to access and review all of the important information contained in the proxy materials before voting.

See the reverse side of this notice to obtain proxy Materials and voting instructions.

--Before You Vote --

How to Access the Proxy Materials

Proxy Materials Available to VIEW or RECEIVE:

1.

Annual Report 2. Notice & Proxy Statement

How to View Online:

Have the 12-Digit Control Number available (located on the following page) and visit: *www.proxyvote.com*.

How to Request and Receive a PAPER or E-MAIL Copy:

If you want to receive a paper or e-mail copy of these documents, you must request one. There is NO charge for requesting a copy. Please choose one of the following methods to make your request:

1)

BY INTERNET: www.proxyvote.com

2)

BY TELEPHONE: 1-800-579-1639

3)

*BY E-MAIL**: sendmaterial@proxyvote.com

* If requesting materials by e-mail, please send a blank e-mail with the 12-Digit Control Number (located on the following page) in the subject line.

Requests, instructions and other inquiries sent to this e-mail address will NOT be forwarded to your investment Advisor. Please make the request as instructed above on or before December 03, 2009 to facilitate timely delivery.

How To Vote

Please Choose One of The Following Voting Methods

Vote In Person:

Many shareholder meetings have attendance requirements including, but not limited to, the possession of an attendance ticket issued by the entity holding the meeting. Please check the meeting materials for any special requirements for meeting attendance. At the Meeting you will need to request a ballot to vote these shares.

Vote By Internet:

To vote now by Internet, go to *www.proxyvote.com.* Have the 12 Digit Control Number available and follow the instructions.

Vote By Mail:

You can vote by mail by requesting a paper copy of the materials, which will include a proxy card.

Voting items

The Board of Directors recommends that you vote FOR the following:

1.

Election of Directors

Nominees

01 Ronald A. Durando 02 Gustave T. Dotoli 03 Victor Lawrence 04 Abraham Biderman 05 Martin S. Smiley 06 Anthony H. Guerino

The Board of Directors recommends you vote FOR the following proposal(s):

2

Ratify the appointment of our independent accountants, Rosenberg Rich Baker Berman & Co. for fiscal year 2009.

3

Approval of an amendment to our Amended Certificate of Incorporation authorizing an increase in authorized shares of common stock from 2 billion shares to 3 billion shares

DEFINITIVE **COPY**

mPHASE TECHNOLOGIES, INC.

PROXY STATEMENT
FOR THE ANNUAL MEETING OF SHAREHOLDERS
TO BE HELD THURSDAY DECEMBER 17, 2009

This Proxy Statement is furnished to the shareholders of mPhase Technologies, Inc. in connection with the solicitation of proxies by our Board of Directors to be voted at the Annual Meeting of Shareholders and at any adjournments thereof. The Annual Meeting will be held at our offices at 587 Connecticut Avenue, Norwalk, CT 06854, at 10:00 a.m. Eastern Time on Wednesday January 20, 2010.

The approximate date on which this Proxy Statement and the accompanying Proxy Card are first being sent or given to shareholders is December 3, 2009

VOTING

General

The securities that may be voted at the Annual Meeting consist of our common stock, with each share entitling its owner to one vote on each matter submitted to the shareholders. The record date for determining the holders of our shares who are entitled to notice of and to vote at the Annual Meeting is December 3, 2009. On the record date ____________ shares were outstanding and eligible to be voted at the Annual Meeting.

Quorum and Vote Required

The presence, in person or by proxy, of a majority of the outstanding shares of our shares is necessary to constitute a quorum at the Annual Meeting. Abstentions and broker non-votes shall be counted for purposes of determining a quorum, but not have the effect of votes for or against any proposal. Therefore, abstentions and broker non-votes will not affect the outcome of such matter. At a meeting where a quorum is present, with respect to Proposal I for the election of directors, nominees who receive a plurality of the votes cast will be elected to serve until the next Annual Meeting of Shareholders, and with respect to Proposal II for the ratification of appointment of Independent Accountants for the Company, the affirmative vote of a majority of the shares represented at the Annual Meeting will be required to approve such proposal and broker non-votes will be counted as an vote in the affirmative. With respect to Proposal III for the amendment of the Company's certificate of incorporation to authorize an additional 2 billion shares of common stock for a total number of 3 billion authorized shares of common stock, the affirmative vote of a majority of the shares of the Company represented at the meeting or by proxy is required for approval.

Brokers holding shares of record for customers generally are not entitled to vote on certain matters unless they receive voting instructions from their customers. Broker non-votes means the votes that could have been cast on the matter in question if the brokers had received their customers' instructions, and as to which the broker has notified us on a Proxy form in accordance with industry practice or has otherwise advised us that it lacks voting authority. However, Brokers may vote on certain routine matters in the Proxy Statement at the broker's discretion whey they have not received timely voting instructions from their customers.

Voting by Proxy

Shares represented by properly executed proxies received at or before the Annual Meeting that have not been revoked will be voted at the Annual Meeting in accordance with the instructions contained therein. Shares represented by properly executed proxies for which no instruction is given will be voted FOR approval of the proposals described in this Proxy Statement. If any other matters properly come before the Annual Meeting, the persons named as proxies will vote upon such matters according to their judgment. Our shareholders are requested to complete, sign, date and promptly return the enclosed Proxy Card in the postage-prepaid envelope provided for this purpose to ensure that their shares are voted. A shareholder may revoke a proxy at any time before it is voted by signing and returning a later-dated proxy with respect to the same shares, by filing with our corporate secretary, a written revocation bearing a later date or by attending and voting in person at the Annual Meeting. Mere attendance at the Annual Meeting will not in and of itself revoke a proxy.

If the Annual Meeting is postponed or adjourned for any reason, at any subsequent reconvening of the Annual Meeting, all proxies (except for any proxies that have theretofore effectively been revoked or withdrawn) will be voted in the same manner as such proxies would have been voted at the original convening of the Annual Meeting, notwithstanding that such proxies may have been effectively voted on the same or any other matter at a previous meeting.

PROPOSAL I

ELECTION OF DIRECTORS

The Board has nominated six (6) incumbent directors for election: Ronald A. Durando, Gustave T. Dotoli, Anthony Guerino, Abraham Biderman, Victor Lawrence and Martin S. Smiley

Each of the incumbent director nominees has consented to be named a nominee in this Proxy Statement and to serve as a director if elected. Proxies not marked to the contrary will be voted FOR the election to the Board of each nominee. Management has no reason to believe that any of the nominees will not be a candidate or will be unable to serve. However, in the event that any of the nominees should become unable or unwilling to serve as a director, the proxy will be voted for the election of such person or persons as shall be designated by the current directors.

Nominees

The Board of Directors recommends that you vote FOR all of the following nominees:

Name	Age	Positions
Ronald A. Durando	52	Chief Executive Officer and Chairman of the Board of Directors
Gustave T. Dotoli (2)	74	Chief Operating Officer and Director
Anthony H. Guerino (1)(2)	65	Director
Abraham Biderman (1)(2)	62	Director
Victor Lawrence	60	Director
Martin S. Smiley	62	Director, EVP, General Counsel, CFO

(1) Member of Audit Committee.

(2) Member of Compensation Committee .

The following is biographical information about each of the nominees.

Ronald A. Durando is a co-founder of mPhase Technologies, Inc. and has served as the Company's President, Chief Executive Officer and a Director since its inception in October 1996. Since 1994, Mr. Durando has been an officer of Microphase Corporation. From 1986 to 1994, Mr. Durando was President and Chief Executive Officer of Nutley Securities, Inc., a registered broker-dealer. In addition, Mr. Durando was also Chairman of the Board of Janifast Ltd., a Hong Kong company that does manufacturing in Hong Kong and China and discontinued operations in March of 2009 due to adverse global financial conditions.

Gustave T. Dotoli has served as our Chief Operating Officer since October 1996. Prior to joining us, Mr. Dotoli was President and CEO of State Industrial Safety, Inc. from 1986-1996. In addition, Mr. Dotoli currently serves as the Vice President of Corporate Development of Microphase Corporation. He is formerly the President and Chief Executive Officer of the following corporations: Imperial Electro-Plating, Inc., World Imports USA, Industrial Chemical Supply, Inc., SISCO Beverage, Inc. and Met Pack, Inc. Mr. Dotoli holds a B.S. in Industrial Engineering from Fairleigh Dickinson University.

Martin Smiley is the EVP, CEO and General Counsel of mPhase Technologies, Inc. Mr. Smiley joined the Company on August 21, 2000. From June of 1994 through July of 2000, Mr. Smiley was a Managing Director in the Investment Banking Division of CIBC/Oppenheimer focusing on high yield debt placements for the independent power industry. From 1990 through 1994, Mr. Smiley served as Vice President of Investment Banking specializing in International Lease Financing and served as Vice President and General Counsel of Chrysler Capital Corporation commencing in 1984. Prior to that Mr. Smiley was a practicing attorney with the New York Law Firms of Leboeuf, Lamb Greene & MacRade specializing in corporate finance and SEC matters. Mr. Smiley received his B.A. in Mathematics from the University of Pennsylvania in 1969 and his J.D. from the University of Virginia School of Law in 1975.

Anthony H. Guerino has been a member of the Board since February 23, 2000. Since December 1997, Mr. Guerino has been an attorney in private practice in New Jersey. Prior thereto, Mr. Guerino served as a judge of the Newark Municipal Courts for over twenty (20) years, periodically sitting in the Essex County Central Judicial Processing Court at the Essex County Courthouse. Mr. Guerino has been a chairperson for and member of several judicial committees and associations in New Jersey, and has been an instructor for the Seton Hall School of Law's Trial Moot Court Program.

Abraham Biderman has been a member of the Board since August 3, 2000. Since October of 2003, Mr. Biderman has been a Managing Director of Investment Banking of Eagle Advisers, an investment banking firm located in New York City. From 1990-September of 2003, Mr. Biderman had been employed by Lipper & Co. as Executive Vice President; Executive Vice President, Secretary and Treasurer of the Lipper Funds; and Co-Manager of Lipper Convertibles, L.P. Prior to joining Lipper & Co. in 1990, Mr. Biderman was Commissioner of the New York City Department of Housing, Preservation and Development from 1988 to 1989 and Commissioner of the New York City Department of Finance from 1986 to 1987. He was Chairman of the New York City Retirement System from 1986 to 1989. Mr Biderman was Special Advisor to former Mayor Edward I. Koch from 1985 to 1986 and assistant to former Deputy Mayor Kenneth Lipper from 1983 to 1985. Mr. Biderman is a Director of the Municipal Assistance Corporation for the City of New York. Mr. Biderman graduated from Brooklyn College and is a certified public accountant.

Dr Victor Lawrence is bachelor Chair professor of Electrical Engineering and Associate Dean for Special Programs, in the Charles V Schafer, Jr. School of Engineering, at Steven Institute of Technology. Dr. Victor Lawrence is a member of the National Academy of Engineering and has worked in the information technology and communications field for over thirty years. He is an industry leader in digital communications R&D and services, an entrepreneur, an active member of engineering professional organizations, an author, and a teacher who has extensive international experience. Prior to joining Steven Institute of Technology Dr. Lawrence was Vice President, Advanced Communications Technology, Bell Laboratories, Lucent Technologies. He led the development of technologies that go into the most innovative, reliable, and cost-effective communications networks for the leading telecommunications service providers. He has supported Lucent's businesses with a staff of about 500 leading technologists and a budget of about $100M. Major projects included gigabit, photonic, and wireless networking developments and services. He was responsible for a team of engineers that worked on performance analysis, simulations and development of broadband access and backbone networks for many national and international service providers. All of Lucent's R&D organizations relied on his high-technology support of computer-aided hardware design, physical and thermal design, systems compliance testing and certification, and design for high performance network control, signaling, and management. Earlier, he was Director, Advanced Multimedia Communications at Bell Labs, where he was responsible for systems engineering, exploratory development of multimedia signal processing, transmission, and switching, including speech and audio coding, modems, broadband transmission, ATM switching and protocols, and wireless communication and signal processing. He held a variety of leadership positions in data communications research, digital techniques, and information systems. His application of digital signal processing to data communications in the late 1980s and early 1990s led to many significant advances in high-speed transmission over copper lines (e.g., voice band modems and DSL), which helped create a global industry that leverages the public switched telephone network. Dr. Lawrence played a significant role in the development of every major international voiceband modem standard, making high-speed data communication over international networks possible. The universal availability of high-speed data connectivity stimulated the growth and widespread use of the Internet. He led the development of high-speed modem/fax chip sets that are used in data terminals, computers, and voice terminals for secure communications worldwide. His work on high-speed transceivers for local loop and for premises applications led to the development of a variety of DSL technologies, many of which are deployed today for broadband services.

Dr. Lawrence is a member of the National Academy of Engineering and a Fellow of both the Institute of Electrical and Electronics Engineers (IEEE) and AT&T Bell Labs. For his scientific achievements, Dr. Lawrence has received numerous awards, including the 2004 IEEE Award in International Communication and a 1997 Emmy Award for the HDTV Grand Alliance Standard. He was also the co-recipient of the 1984 J. Harry Karp Best Paper Award and the 1981 Gullemin-Cauer Prize Award.

He served as the Chairman, IEEE Awards Board in 1994-1995, was Editor-In-Chief, IEEE Transactions on Communications from 1987 to 1991, and a member of the Board of Governors of the IEEE Communications Society from 1990 to 1992. He was also Special Rapporteur on Coding (1982-1984) and on Transmission Impairments (1984) for CCITT (now ITU).Dr. Lawrence has been a key proponent of R&D globalization and is championing the effort to bring fiber optic connectivity to Africa. Over the past several years at Bell Labs, he managed a worldwide R&D organization, with branches in Beijing and Shanghai in China and in Hilversum and Twente in the Netherlands, as well as four states in the US. Before joining Bell Labs in 1974, he taught at Kumasi University of Science and Technology in Ghana, and was employed as a research engineer at the General Electric Company in the UK. Dr. Lawrence is the co-author of five books : *Introduction to Digital Filters, Tutorials on Modem Communications, Intelligent Broadband Multimedia Networks, Design and Engineering of Intelligent Communications Systems, and The Art of Scientific Innovation.* He holds over 20 U.S. and international patents and has over 45 papers in referenced journals and conference proceedings, covering digital signal processing and data communications. Dr. Lawrence has taught Signal Processing and Data Networking courses at the University of Pennsylvania, Rutgers University, Princeton University, Columbia University, and Fairleigh Dickinson University, and delivered the Chancellor's Distinguished Lecture Series at the University of California at Berkeley in 1986. He has also taught Technology Management and Technology Incubation courses at Bell Labs to new engineers.

Since 1996, Dr. Lawrence has taught a short-course each year at the US Industrial College of the Armed Forces.

From 1997-2001, Dr. Lawrence and his staff supported Senator Frist and the US Sub-Committee on Science and Technology.

Dr. Lawrence received his undergraduate, masters, and doctorate degrees from the University of London in the United Kingdom.

The Board of Directors and Committees

During fiscal year ended June 30, 2008, the Board of Directors held one meeting. Each director attended at least 75% of the combined number of meetings of the Board and Board committees of which he was a member.

The Board of Directors created an Audit and Compensation Committee on February 23, 2000. The Audit Committee during fiscal 2008 was comprised of Messrs. Biderman and Guerino. Mr. Guerino meets the independence criteria established by the National Association of Securities Dealers, Inc. The report of the Audit Committee describes the scope of authority of the committee and may be found herein.

The Board of Directors also has a Compensation Committee. As more fully described in the Report of the Compensation Committee set forth in this Proxy Statement, the Compensation Committee is responsible for our management and employee compensation. Specifically, the Compensation Committee determines the adequacy of management and employee compensation including the administration of our 2001 Long-Term Stock Incentive Plan. The Compensation Committee is presently comprised of Messrs. Dotoli, Biderman and Guerino.

On October 19, 2007, in connection with the settlement and dismissal of a civil law suit originally filed on November 16, 2005 by the Securities and Exchange Commission in the Federal District Court in the District of Connecticut, the SEC issued a Cease and Desist Order and certain remedial sanctions against two officers of mPhase Technologies, Inc. (the "Company"). The civil suit was filed against Packport.com, Inc. a Nevada corporation, Microphase Corporation, a Connecticut corporation, a company that provides administrative services to the Company and shares common management with the Company, and others. The two officers of the Company were Mr. Ronald A. Durando, President and Chief Executive Officer and Mr. Gustave T. Dotoli, the Chief Operating Officer. The Civil suit by the SEC named as respondents Mr. Durando, Mr. Dotoli and others in connection with their activities as officers and directors of Packetport.com. The cease and desist order from the SEC found that (1) Mr. Durando had violated Section 5 of the Securities Act of 1933, as amended, by making unregistered sales of common stock of Packetport.com.(2) Mr. Durando and Mr. Dotoli had violated Section 16(a) of the Securities Exchange Act of 1934, as amended, and Rule 16(a) thereunder by failing to timely disclose the acquisition of their holdings on Form 3's and (3) Mr. Durando had violated Section 13(d) of the Securities Exchange Act of 1934, as amended, for failing to disclose the acquisition of more than five percent of the stock of Packetport.com. Under the order Mr. Durando was required to disgorge $150,000 and Mr. Dotoli was required to disgorge $100,000. The Company was not named as a party to the civil suit. More information regarding the detailed terms of the settlement can be found in SEC release No 8858 dated October 18, 2007 promulgated under the Securities Act of 1933 and SEC Release No. 56672 dated October 18,2007 promulgated pursuant to the Securities Exchange Act of 1934.

Mr. Durando and Mr. Dotoli have continued to serve as officers and directors of the Company. Mr Durando and Mr. Dotoli together with Microphase corporation and others, without admitting or denying the findings of the SEC, except as to jurisdiction and subject matter, have consented to the entry of the Order Instituting Cease and Desist Proceedings, Making findings and Imposing a Cease and Desist Order and Remedial Sanctions pursuant to Section 8A of the Securities Exchange Act of 1933 and Section 21C of the Securities Exchange Act of 1934.

Director Compensation

For their attendance of Board and Committee meetings, we compensate the Directors with an annual stipend and stock options granted under our Stock Incentive Plan, which grants are included in the table Security Ownership of Certain Beneficial Owners and Management and the notes thereto.

Compensation Committee Interlocks and Insider Participation

The members of the Compensation Committee during fiscal 2008 were Messrs. Dotoli, Biderman and Guerino. Mr. Dotoli is our Chief Operating Officer. Neither Messrs. Biderman nor Guerino has been one of our officers or employees. None of our directors or executive officers served as a member of the compensation committee (or other board committee performing equivalent functions or, in the absence of such committee, the entire Board of Directors) of another entity during fiscal 2008 that has a director or executive officer serving on our Board of Directors except that Mr. Dotoli was also a member of the Board of Directors of PacketPort.com, Inc., a company in which Mr. Durando served as Chief Executive Officer until the Company merged with Wyndstorm Corporation, at which time Mr. Dotoli and Mr. Durando resigned from their respective positions.

REPORT OF THE AUDIT COMMITTEE

The Audit Committee oversees our financial reporting process on behalf of the Board of Directors. Management has the primary responsibility for the financial statements and the reporting process, including the systems of internal controls. Our committee has reviewed in accordance with recent revisions to the law pursuant to the Sarbanes-Oxley Act our Form 10-K, covering the fiscal year of the Company ending June 30, 2008.

In fulfilling our oversight responsibilities, we will with our independent accountants who are responsible for expressing an opinion on the conformity of those audited financial statements with generally accepted accounting principles, their judgments as to the quality, not just the acceptability, of our accounting principles and such other matters as are required to be discussed with the committee under generally accepted auditing standards. We also have discussed with the independent accountants their independence from management, including the matters in the written disclosures from the independent accountants required by the Independence Standards Board. We further considered whether the provision by the independent accountants of the non-audit services described elsewhere in this Proxy statement is compatible with maintaining their independence. Finally, we recommended, and the Board of Directors approved, the selection Rosenberg, Rich, Baker, Berman & Company as our independent accountants for the fiscal year 2009 commencing July 1, 2008 and ending June 30, 2009.

We have also discussed with our internal auditors and independent accountants the overall scope and plans for their respective audits. We meet with the internal auditors and independent accountants, with and without management present, to discuss the results of their examinations, their evaluations of our internal controls, and the overall quality of financial reporting.

Anthony Guerino
Abraham Biderman

PROPOSAL II

RATIFICATION OF APPOINTMENT OF INDEPENDENT ACCOUNTANTS

We have engaged Rosenberg, Rich, Baker, Berman & Company certified public accountants having offices in Bridgewater, New Jersey, as our independent auditors for fiscal year 2009 commencing July 1, 2008 and ending June 30, 2009. If shareholders of the Company fail to ratify the Company's auditors, the Company will undertake to select a second accounting firm to review the financial statements of the Company for the fiscal year which would be subject to approval at a Special Meeting of shareholders.

Audit Fees. Fees for the audit for the fiscal year ended June 30, 2008 and the reviews of Forms 10-Q for such fiscal year amounted to $63,750.

Fees for Financial Information Systems Design and Implementation. None.

All other fees. None

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE FOR RATIFICATION OF APPOINTMENT OF ROSENBERG, RICH, BAKER, BERMAN & COMPANY AS THE EXTERNAL AUDITORS FOR US FOR THE FISCAL YEAR 2009 COMMENCING ON JULY 1,2008 AND ENDING ON JUNE 30, 2009. THE AFFIRMATIVE VOTE OF HOLDERS OF A MAJORITY OF THE SHARES OF COMMON STOCK REPRESENTED AT THE MEETING IS REQUIRED TO RATIFY THE APPOINTMENT OF THE AUDITORS. SHARES OF COMMON STOCK REPRESENTED AT THE MEETING BY EXECUTED BUT UNMARKED PROXIES WILL BE VOTED FOR RATIFICATION OF ROSENBERG, RICH, BAKER, BERMAN & COMPANY .

PROPOSAL III

APPROVAL OF AN AMENDMENT TO THE

COMPANY'S AMENDED CERTIFICATE OF INCORPORATION

The Board of Directors has approved, and is recommending to the stockholders for approval at the Annual Meeting, an amendment to our Amended Certificate of Incorporation to increase the number of authorized shares of common stock from 2,000,000,000 to 3,000,000,000 shares. The Board of Directors determined that this amendment is advisable and should be considered at the Annual Meeting.

Purpose and Effect of the Amendment to Authorize Additional Shares of Common Stock

PROPOSAL TO AMEND THE COMPANY'S AMENDED CERTIFICATE OF INCORPORATION TO INCREASE THE AUTHORIZED COMMON STOCK FROM 2,000,000,000 SHARES TO 3,000,000,000,000 SHARES

Background

The Company's Amended Certificate of Incorporation, as currently in effect, provides that the Company's authorized capital stock consists of 2,000,000,000 shares of common stock, $.01 par value per share. Effective as of April 25, 2009, the Company's Board of Directors unanimously approved an amendment to Article 4 of the Company's Amended Certificate of Incorporation to increase the number of authorized shares of common stock from 2,000,000,000 shares to 3,000,000,000 shares. In accordance with New Jersey law, the proposed amendment to the Amended Certificate of Incorporation is subject to shareholder approval.

In the event that shareholder approval of the proposed amendment is obtained, the Company expects to file a Certificate of Amendment to the Amended Certificate of Incorporation with the New Jersey Secretary of State on or about the close of business on the date of the Annual Meeting.

As of November 18, 2009, out of the 2,000,000,000 shares of common stock currently authorized for issuance under the Amended Certificate of Incorporation, a total of 1,035,632,615 shares were issued and outstanding and 765,845,788 shares were reserved for issuance upon exercise of the Company's stock options, warrants and other convertible securities. An increase in the number of shares of common stock authorized for issuance under the Company's Amended Certificate of Incorporation is necessary to permit the Company to have additional shares available for issuance in furtherance of the Company's business purposes, as more fully set forth below under Reasons For and Effects Of the Proposal. .

Reasons for and Effects of the Proposal

Due to the limited number of shares of common stock available to be issued, the Board of Directors has unanimously approved, and voted to recommend that the shareholders approve, an amendment to the Company's Amended Certificate of Incorporation pursuant to which the number of shares of common stock which the Company would be authorized to issue would be increased from 2,000,000,000 shares to 3,000,000,000 shares.

The Board of Directors believes that an increase in authorized common stock would provide the Company with increased flexibility to issue and/or sell common stock from time to time at the discretion of the Board of Directors, and without further authorization by the shareholders, for one or more of the following business purposes: (i) in public or private offerings as a means of obtaining additional capital for the Company's business; (ii) as part or all of the consideration required to be paid for the acquisition of ongoing businesses or other assets; (iii) to satisfy any current or future financial obligations of the Company; (iv) in connection with the exercise of options, warrants or rights, or the conversion of convertible securities that may be issued by the Company; or (v) pursuant to any benefit, option or stock ownership plan or employment agreement.

The proposed increase in the number of authorized shares of common stock will not change the number of shares of common stock outstanding or the rights of the holders of such stock. Other than for the possibility of issuing new shares of common stock upon the exercise of outstanding stock options or warrants, the Company does not have any immediate plans, arrangements, commitments or understandings with respect to the issuance of any of the additional shares of common stock that would be authorized by the proposed amendment to the Amended Certificate of Incorporation. However, the Company anticipates that it will need to raise additional equity capital in the near future through the issuance of common stock or other securities that are convertible into, or otherwise grant the holder thereof the right to purchase, common stock. The records of the Company's transfer agent indicated that as of November 18, 2009, the

Company has 1,035,632,615 shares of common stock outstanding plus warrants at prices ranging from $.05 per share to $.35 per share equal to 141,308,788 shares of common stock and options ranging from $.05 per share to $.30 per share equal to 145,293,000. In addition the Company has reserved 479,244,000 shares of its common stock to cover Convertible Debentures outstanding.

The Company has set forth on Page 9 of this Proxy the Beneficial Ownership of all Related Parties as of June 30, 2009. In private placements that occurred during both fiscal year ended June 30, 2008 and continuing through the quarter ended September 30, 2009 the Company has, as indicated in its Form 10K and 10Q filings the issuance of reparation shares during such period to induce prior investors from earlier offerings to invest in additional shares of common stock of the Company. As of the date hereof, there are no current agreements for the issuance of any additional reparation shares. The Company is unable to predict whether conditions in the financial markets in the future may require it to issue additional reparation shares in order to attract monies in future private placements of its common stock.

Any issuance of additional shares of common stock could reduce the current shareholders' proportionate interests in the Company, depending on the number of shares issued and the purpose, terms and conditions of the issuance. Moreover, the issuance of additional shares of common stock could discourage attempts to acquire control of the Company by tender offer or other means. In such a case, shareholders might be deprived of benefits that could result from such an attempt, such as realization of a premium over the market price of their shares in a tender offer or the temporary increase in market price that could result from such an attempt. Also, the issuance of stock to persons supportive of the Board of Directors could make it more difficult to remove incumbent management and directors from office. Although the Board of Directors intends to issue common stock only when it considers such issuance to be in the best interest of the Company, the issuance of additional shares of common stock may have, among others, a dilutive effect on earnings per share of common stock and on the equity and voting rights of holders of shares of common stock. The Board of Directors believes, however, that the benefits of providing the flexibility to issue shares without delay for any business purpose outweigh any such possible disadvantages.

Ownership of shares of common stock entitles each shareholder to one vote per share of common stock. Holders of shares of common stock do not have preemptive rights to subscribe to additional securities that may be issued by the Company, which means that current shareholders do not have a prior right to purchase any new issue of capital stock of the Company in order to maintain their proportionate ownership. Shareholders wishing to maintain their interest, however, may be able to do so through normal market purchases.

The increase in the authorized common stock will be implemented by effecting an amendment to the Company's Amended Certificate of Incorporation, replacing the current Article 4 with a new Article 4 that states as follows:

The aggregate number of shares of common stock which the Corporation shall have authority to issue is 3,000,000,000 shares, par value $.01 per share

Assuming the increase in authorized common stock is approved by the shareholders at the Annual Meeting, an amendment to the Company's Amended Certificate of Incorporation will be filed with the Secretary of State of the State of New Jersey, and the increase in authorized common stock will become effective as of 5:00 p.m. Eastern time on the date of such filing. The Company expects that such filing will take place on or shortly after the date the Annual Meeting is held. The increase in authorized common stock may be abandoned by the Board of Directors at any time before or after the Annual Meeting should the shareholders not approve this proposal.

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE FOR APPROVAL OF THE AMENDED CERTIFICATE OF INCORPORATION THEREFORE INCREASING THE NUMBER OF AUTHORIZED SHARES OF COMMON STOCK FROM 2,000,000,000 SHARES TO 3,000,000,000 SHARES, AS SET FORTH ABOVE. THE AFFIRMATIVE VOTE OF HOLDERS OF A MAJORITY OF OUTSTANDING SHARES OF COMMON STOCK IS REQUIRED TO APPROVE THE AMENDMENT TO THE AMENDED CERTIFICATE OF INCORPORATION. SHARES OF COMMON STOCK REPRESENTED AT THE MEETING BY EXECUTED BUT UNMARKED PROXIES WILL BE VOTED FOR APPROVAL OF THE PROPOSAL.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth as of June 30, 2009 certain information regarding the beneficial ownership of our shares:

1. by each person who is known by us to be the beneficial owner of more than five percent (5%) of its outstanding common stock;

2. each of our directors;

3. by each executive officer named in the Summary Compensation Table; and, by all of our directors and executive officers as a group.

AFFILIATES (1 & 2)	Shares	Warrants	Options	TOTAL	%
Victor Lawrence	-	-	-	-	
Anthony Guerino	-	-	765,000	765,000	0.05%
Abraham Biderman	1,076,900	-	1,065,000	2,141,900	0.15%
Gustave Dotoli	22,793,033		36,775,000	59,568,033	4.20%
Ron Durando (3)	43,588,965	65,000	63,675,000	107,328,965	7.57%
Ned Ergul	2,850,000		2,655,000	5,505,000	0.39%
Martin Smiley	16,262,629	2,345,569	19,700,000	38,308,198	2.69%
Microphase	16,060,019	5,572,222	-	21,632,241	1.54%
Janifast	8,227,778	1,950,000	-	10,177,778	0.72%
Total Affiliates	**110,859,324**	**9,932,791**	**122,510,000**	**243,302,115**	**17.33%**

(1) Unless otherwise indicated, the address of each beneficial owner is 587 Connecticut Avenue, Norwalk, Connecticut 06854-1711.

(2) Unless otherwise indicated, mPhase believes that all persons named in the table have sole voting and investment power with respect to all shares of the Company shares beneficially owned by them. The percentage for each beneficial owner listed above is based on 1,103,089,650 shares outstanding on June 30, 2009, and, with respect to each person holding options or warrants to purchase shares that are exercisable within 60 days after June 30, 2009, the number of options and warrants are deemed to be outstanding and beneficially owned by the person for the purpose of computing such person's percentage ownership, but are not deemed to be outstanding for the purpose of computing the percentage ownership of any other person.

(3) Includes 1,816,148 shares held by Durando Investment LLC, Shares held by Janifast which Mr. Durando controls are stated separately.

(4) Does not include 90,519,050 and 36,510,585 shares issuable for unpaid compensation, loans plus accord interest, if converted for Messrs. Durando, Dotoli and Smiley respectively. Such conversions are subject to availability of authorized shares.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth as of June 30, 2008 certain information regarding the beneficial ownership of our shares:

1. by each person who is known by us to be the beneficial owner of more than five percent (5%) of its outstanding common stock;
2. each of our directors;
3. by each executive officer named in the Summary Compensation Table; and, by all of our directors and executive officers as a group.

AFFILIATES (1 & 2-)	Shares	Warrants	Options	TOTAL	%
Victor Lawrence	-	-	-	-	
Anthony Guerino	-	-	765,000	765,000	0.12%
Abraham Biderman	1,076,900	-	1,065,000	2,141,900	0.34%
Gus Doteli	6,793,033		6,125,000	12,918,033	2.04%
Ron Durando (3)	16,588,965	65,000	12,675,000	29,328,965	4.64%
Ned Ergul	2,850,000		2,655,000	5,505,000	0.87%
Martin Smiley	6,262,629	2,345,569	1,225,000	9,833,198	1.56%
Microphase	16,060,019	5,572,222	-	21,632,241	3.42%
Janifast	8,227,778	1,950,000	-	10,177,778	1.61%
Total Affiliates	**57,859,324**	**9,932,791**	**24,510,000**	**92,302,115**	14.61%

(1) Unless otherwise indicated, the address of each beneficial owner is 587 Connecticut Avenue, Norwalk, Connecticut 06854-1711.

(2) Unless otherwise indicated, mPhase believes that all persons named in the table have sole voting and investment power with respect to all shares of the Company shares beneficially owned by them. The percentage for each beneficial owner listed above is based on 387,846,008 shares outstanding on June 30, 2008, and, with respect to each person holding options or warrants to purchase shares that are exercisable within 60 days after June 30, 2008, the number of options and warrants are deemed to be outstanding and beneficially owned by the person for the purpose of computing such person's percentage ownership, but are not deemed to be outstanding for the purpose of computing the percentage ownership of any other person.

(3) Includes 1,816,148 shares held by Durando Investment LLC, Shares held by Janifast which Mr. Durando controls are stated separately.

EXECUTIVE COMPENSATION

EXECUTIVE COMPENSATION

Our executive officers, directors and other significant employees and their ages and positions as of June 30, 2008 are as follows:

Name of Individual	Age	Position with the Company and Subsidiaries
Ronald A. Durando	50	Chief Executive Officer, Chairman of the Board
Gustave T. Dotoli (2)	72	Chief Operating Officer
Victor Lawerence	58	Director
Anthony Guerino (1)(2)	63	Director
Abraham Biderman (1)(2)	60	Director
Martin Smiley	60	Chief Financial Officer and General Counsel

(1) Member of Audit Committee

(2) Member of Compensation Committee

The following table sets forth, for the fiscal year ended June 30, 2008 and the two previous fiscal years, the compensation earned by mPhase's chief executive officer and the four other executive officers, whose compensation was greater than $100,000 for services rendered in all capacities to the Company for the year ended June 30, 2009.

SUMMARY EXECUTIVE COMPENSATION

NAME & PRINCIPAL POSITION	YEAR	SALARY	BONUS	STOCK AWARDS	OPTION AWARDS	NON_EQUITY INCENTIVE	PENSION VALUE	OTHER	TOTAL
Ronald Durando	2009	$ 275,718	$ 0	$ 1,541,700	$ 1,944,912	N/A	N/A	$ 61,473	$ 3,823,803
President	2008	$ 393,600	$ 0	$0	$ 0	N/A	N/A	$ 19,490 #4	$ 413,090
Chief Executive Officer	2007	$ 393,600	$ 0	$ 860,000	$ 196,000	N/A	N/A	$ 7,500 #1	$ 1,457,100
Gustave Dotoli									
Chief Operating Officer	2009	$ 229,000	$ 0	$ 913,600	$ 1,166,947	N/A	N/A	$ 62,514	$ 2,372,061
	2008	$ 282,000	$ 0	$ 0	$ 0	N/A	N/A	$ 4,156 #4	$ 286,156
	2007	$ 282,000	$ 0	$ 450,000	$ 126,000	N/A	N/A	$ 7,538 #2	$ 865,538
Martin Smiley	2009	$ 182,292	$ 0	$ 571,000	$ 700,168	N/A	N/A	$ 21,048	$ 1,474,508

Executive Vice President	2008	$ 200,000	$ 0	$ 0	$ 0	N/A	N/A	$ 18,752 #4	$ 218,752
CFO and General Council	2007	$ 200,000	$ 0	$ 262,500	$ 56,000	N/A	N/A	$ 8,550 #3	$ 527,050
-	-	-	-	-	-	-	-	-	-
Footnotes	-	-	-	-	-	-	-	-	-

#1 consists of directors fees of $7,500 in 2007

2 consists of directors fees of $7,500 in 2007 plus interest of $38 in 2007 on loan to the Company #3 consists of directors fees of $3,750 plus $4,800 interest on loans to the Company #4 Interest on loans to the Company

The following table sets forth, for the fiscal year ended June 30, 2008 and the two previous fiscal years, the compensation earned by mPhase's chief executive officer and the four other executive officers, whose compensation was greater than $100,000 for services rendered in all capacities to the Company for the year ended June 30, 2008.

SUMMARY EXECUTIVE COMPENSATION

NAME & PRINCIPAL POSITION	YEAR	SALARY	BONUS	STOCK AWARDS	OPTION AWARDS	NON_EQUITY INCENTIVE	PENSION VALUE	OTHER	TOTAL
Ronald Durando	2008	$393,600	$0	$0	$0	N/A	N/A	$19,490 #4	$413,090
President	2007	$393,600	$0	$860,000	$196,000	N/A	N/A	$7,500 #1	$1,457,100
Chief Executive Officer	2006	$393,600	$250,000	$1,260,000	$1,596,200			$7,500 #1	$3,507,300
Gustave Dotoli	2008	$282,000	$0	$0	$0	N/A	N/A	$4,156 #4	$286,156
Chief Operating Officer	2007	$282,000	$0	$450,000	$126,000	N/A	N/A	$7,538 #2	$865,538
	2006	$282,000	$75,000	$525,000	$836,400			$7,500 #2	$1,725,900
Martin Smiley	2008	$200,000	$0	$0	$0	N/A	N/A	$18,752 #4	$218,752
Executive Vice President	2007	$200,000	$0	$262,500	$56,000	N/A	N/A	$8,550 #3	$527,050
CFO Chief Legal Counsel	2006	$175,000	$0	$331,213	$213,850	N/A	N/A	$0	$720,063

Footnotes

#1 consists of directors fees of $7,500 in both 2006 and 2007
2 consists of directors fees of $7,500 in both 2006 and 2007plus interest of $38 in 2007on loan to the Company
#3 consists of directors fees of $3,750 plus $4,800 interest on loans to the Company
#4 Interest on loans to the Company

Compensation of Directors

During fiscal years ended June 30, 2009 and June 30, 2008 mPhase did not compensate inside or outside directors with any stipends or stock options or other compensation for their service as Directors of the Company.

OUTSTANDING EQUITY AWARDS
at FISCAL YEAR END JUNE 30, 2009

	Number of Securities underlying Unexercised Options (Exercisable)	Number of Securities underlying Unexercised Options (Unexercisable)	Equity Incentive Plan awards Number of Securities	Option Exercise Price	Option Expiration Date	Number of shares of stock that has not been vested	Market Value of Shares not vested	Equity Incentive
Ronald Durando	2,500,000	0	0	$ 0.35	12/31/2009	0	0	0
President CEO	550,000	0	0	$ 0.18	2/23/2011	0	0	0
-	3,450,000	0	0	$ 0.18	2/23/2011	0	0	0
-	475,000	0	0	$ 0.21	2/23/2011	0	0	0
-	3,525,000	0	0	$ 0.21	2/23/2011	0	0	0
-	1,000,000	0	0	$ 0.21	3/28/2011	0	0	0
-	750,000	0	0	$ 0.25	6/14/2011	0	0	0
-	25,000	0	0	$ 0.25	6/14/2011	0	0	0
-	1,400,000	0	0	$ 0.21	8/24/2011	0	0	0
-	50,000,000	0	0	$ 0.05	9/16/2013	0	0	0
Gustave Dotoli	1,000,000	0	0	$ 0.35	12/31/2009	0	0	0
COO	550,000	0	0	$ 0.18	2/23/2011	0	0	0
-	1,250,000	0	0	$ 0.18	2/23/2011	0	0	0
-	475,000	0	0	$ 0.21	2/23/2011	0	0	0
-	1,325,000	0	0	$ 0.21	2/23/2011	0	0	0
-	750,000	0	0	$ 0.21	3/28/2011	0	0	0
-	500,000	0	0	$ 0.25	6/14/2011	0	0	0
-	25,000	0	0	$ 0.25	6/14/2011	0	0	0
-	900,000	0	0	$ 0.21	8/24/2011	0	0	0
-	30,000,000	0	0	$ 0.05	9/16/2013	0	0	0
Martin Smiley	550,000	0	0	$ 0.18	2/23/2011	0	0	0
Executive VP	475,000	0	0	$ 0.21	2/23/2011	0	0	0
CFO Chief Legal	25,000	0	0	$ 0.21	2/23/2011	0	0	0
Council	250,000	0	0	$ 0.25	6/14/2011	0	0	0
-	400,000	0	0	$ 0.21	6/24/2011	0	0	0
-	18,000,000	0	0	$ 0.05	9/16/2013	0	0	0

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

The members of the Compensation Committee during fiscal 2009 were Messrs. Biderman and Guerino. Neither Messrs. Biderman, nor Guerino have been one of mPhase's officers or employees. None of the Company's directors or executive officers served as a member of the Compensation Committee (or other board committee performing equivalent functions or, in the absence of such committee, the entire Board of Directors) of another entity during fiscal 2008 that has a director or executive officer serving also as a director on mPhase's Board of Directors.. Mr. Dotoli, together with Mr. Durando and Mr. Ergul, were collectively controlling shareholders and Directors of Janifast Ltd. and Mr. Dotoli. In March of 2009 Janifast Ltd terminated operations.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth as of June 30, 2009 certain information regarding the beneficial ownership of our shares:

1. by each person who is known by us to be the beneficial owner of more than five percent (5%) of its outstanding common stock;

2. each of our directors;

3. by each executive officer named in the Summary Compensation Table; and, by all of our directors and executive officers as a group.

AFFILIATES (1 & 2)	**Shares**	**Warrants**	**Options**	**TOTAL**	**%**
Victor Lawrence	-	-	-	-	
Anthony Guerino	-	-	765,000	765,000	0.05%
Abraham Biderman	1,076,900	-	1,065,000	2,141,900	0.15%
Gustave Dotoli	22,793,033		36,775,000	59,568,033	4.20%
Ron Durando (3)	43,588,965	65,000	63,675,000	107,328,965	7.57%
Ned Ergul	2,850,000		2,655,000	5,505,000	0.39%
Martin Smiley	16,262,629	2,345,569	19,700,000	38,308,198	2.69%
Microphase	16,060,019	5,572,222	-	21,632,241	1.54%
Janifast	8,227,778	1,950,000	-	10,177,778	0.72%
Total Affiliates	**110,859,324**	**9,932,791**	**122,510,000**	**243,302,115**	**17.33%**

(1) Unless otherwise indicated, the address of each beneficial owner is 587 Connecticut Avenue, Norwalk, Connecticut 06854-1711.

(2) Unless otherwise indicated, mPhase believes that all persons named in the table have sole voting and investment power with respect to all shares of the Company shares beneficially owned by them. The percentage for each beneficial owner listed above is based on 1,103,089,650 shares outstanding on June 30, 2009, and, with respect to each person holding options or warrants to purchase shares that are exercisable within 60 days after June 30, 2009, the number of options and warrants are deemed to be outstanding and beneficially owned by the person for the purpose of computing such person's percentage ownership, but are not deemed to be outstanding for the purpose of computing the percentage ownership of any other person.

(3) Includes 1,816,148 shares held by Durando Investment LLC, Shares held by Janifast which Mr. Durando controls are stated separately.

(4) Does not include 90,519,050 and 36,510,585 shares issuable for unpaid compensation, loans plus accord interest, if converted for Messrs. Durando, Dotoli and Smiley respectively. Such conversions are subject to availability of authorized shares.

STOCK OPTIONS

Option Exercises and Stock Vesting
FYE June 30,2008

	OPTION AWARDS		STOCK AWARDS	
Name	Number of shares acquired on exercise	Value realized on exercise	Number of shares acquired on exercise	Value realized on exercise
Ronald Durando President CEO	0	N/A	0	$0
Gustave Dotoli COO	0	N/A	0	$0
Martin Smiley Executive VP CFO Chief Legal Counsel	0	N/A	0	$0

STOCK OPTIONS

The following table contains information regarding options granted in the fiscal year ended June 30, 2008 to the executive officers named in the summary compensation table above. For the fiscal year ended June 30, 2008, mPhase did not grant any options or compensatory warrants to acquire shares to officers or employees of the Company.

Name	**Number of Securities Underlying Option/SARS Granted (#)**	**% of Total Option/SARS Granted to Employees in Fiscal Year**	**Exercise or Base Price ($/Share)**	**Market Price on Grant Dates**	**Expiration Dates**	**Potential Realizable Value of Assumed Annual Rates of Stock Price Appreciation for 5 Year Option Term**		
						0%	**5%**	**10%**
A. Ronald Durando	0	N.A.	-	-	-	$0	$0	$0
Gustave T. Dotoli	0	N.A.	-	-	-	$0	$0	$0
Martin Smiley	0	N.A.	-	-	-	$0	$0	$0

OUTSTANDING EQUITY AWARDS
at FISCAL YEAR END JUNE 30.2008

	Number of Securities underlying	Number of Securities underlying	Equity Incentive Plan	Option Exercise Price	Option Expiration Date	Number of shares of stock that	Market Value of Shares not	Equity Incentive

	Unexercised Options (Exercisable)	Unexercised Options (Unexercisable)	awards Number of Securities			has not been vested	vested	
Ronald								
Durando	500,000	0	0	$0.45	6/19/2009	0	0	0
President CEO	1,000,000	0	0	$0.45	6/19/2009	0	0	0
	2,500,000	0	0	$0.35	12/31/2009	0	0	0
	550,000	0	0	$0.18	2/23/2011	0	0	0
	3,450,000	0	0	$0.18	2/23/2011	0	0	0
	475,000	0	0	$0.21	2/23/2011	0	0	0
	3,525,000	0	0	$0.21	2/23/2011	0	0	0
	1,000,000	0	0	$0.21	3/28/2011	0	0	0
	750,000	0	0	$0.25	6/14/2011	0	0	0
	25,000	0	0	$0.25	6/14/2011	0	0	0
	1,400,000	0	0	$0.21	8/24/2011	0	0	0
Gustave Dotoli	250,000	0	0	$0.45	6/19/2009	0	0	0
COO	500,000	0	0	$0.35	6/19/2009	0	0	0
	1,000,000	0	0	$0.35	12/31/2009	0	0	0
	550,000	0	0	$0.18	2/23/2011	0	0	0
	1,250,000	0	0	$0.18	2/23/2011	0	0	0
	475,000	0	0	$0.21	2/23/2011	0	0	0
	1,325,000	0	0	$0.21	2/23/2011	0	0	0
	750,000	0	0	$0.21	3/28/2011	0	0	0
	500,000	0	0	$0.25	6/14/2011	0	0	0
	25,000	0	0	$0.25	6/14/2011	0	0	0
	900,000	0	0	$0.21	8/24/2011	0	0	0
Martin Smiley	550,000	0	0	$0.18	2/23/2011	0	0	0
Executive VP	475,000	0	0	$0.21	2/23/2011	0	0	0
CFO Chief								
Legal	25,000	0	0	$0.21	2/23/2011	0	0	0
Counsel	250,000	0	0	$0.25	6/14/2011	0	0	0
	400,000	0	0	$0.21	6/24/2011	0	0	0

COMPENSATION COMMITTEE REPORT ON EXECUTIVE COMPENSATION

As indicated above, our Compensation Committee consists of Messrs. Dotoli, Biderman and Guerino. The committee determines all compensation paid or awarded to our executive officers and approves our overall compensation policies.

The committee's goals are to attract and retain an executive management team that is capable of taking full advantage of our opportunities, and to provide incentives for outstanding performance. In arriving at an initial compensation offer to an individual, the committee considers determinants of the individual's market value, including experience, education, accomplishments and reputation, as well as the level of responsibility to be assumed, in relation to the market value of such qualifications and industry standards. When determining subsequent adjustments to an individual's compensation package, the committee also evaluates the importance to stockholders of that person's continued service. This is a judgment process, exercised by the committee with the advice of our management and a compensation consultant.

The executive officers' compensation structure consists of: (i) base salary, (ii) cash bonus and (iii) stock options.

*Base Salary.*Each individual's base salary is determined by the committee after considering a variety of factors that make up our market value and prospective value, including the knowledge, experience and accomplishments of the individual, the individual's level of responsibility, and the typical compensation levels for individuals with similar credentials. The committee may change the salary of an individual on the basis of its judgment for any reason, including our performance or the performance of the individual, changes in responsibility, and changes in the market for executives with similar credentials. Salaries for 2008 were set based on the above factors and after review of industry comparables.

*Cash Bonus.*Bonuses are awarded for accomplishments during the past year. Bonuses are determined by the committee with advice from our management, based upon the committee's assessment of the individual's contributions during the year, compared to, but not limited to, a list of individualized goals previously approved by our management and the committee.

Stock Options. Stock options are prospective incentives, aimed at keeping and motivating key people by letting them share in the value they create for stockholders. They are awarded at times deemed appropriate by the committee in amounts calculated to secure the full attention and best efforts of executives on whose future performance our success will depend.

Compliance With Section 16(a) of the Exchange Act

Section 16(a) of the Exchange Act requires our executive officers and directors, and persons who own more than ten percent of a registered class of our equity securities, to file reports of ownership and changes in ownership with the SEC and to provide us with copies of such reports. mPhase has reviewed the report copies filed in 2007 and based also on written representations from its directors and executive officers, the Company believes that there was compliance with Section 16 (a) filing requirements for 2008.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Material Related Party Transactions

The Company has material related party transactions. The Company incurs costs for engineering, design and production of prototypes and certain administrative functions from Microphase Corporation and the purchase of finished goods, primarily consisting of DSL splitter shelves and filters, from Janifast Limited. The Company has incurred costs for obtaining transmission rights. This enabled the Company to obtain re-transmission accreditation to proprietary television content that the Company plans to provide with its flagship product, the TV+ within its incorporated joint venture mPhase Television.Net, in which the Company owns a 56.5% interest.

Mr. Durando, the President and CEO of mPhase, owns a controlling interest and is a director and COB of Janifast Limited. Mr. Durando and Mr. Dotoli are officers of Microphase Corporation. Mr. Dotoli is also a shareholder of Janifast Limited. Mr. Ergul, the chairman of the board of mPhase, owns a controlling interest and is a director of Microphase Corporation and is a director and shareholder of Janifast Limited. Microphase, Janifast, are significant shareholders of mPhase.

Management believes the amounts charged to the Company by Microphase, Janifast, mPhase Television.Net and Hart Telephone are commensurate to amounts that would be incurred if outside parties were used. The Company believes Microphase, and Janifast Limited has the ability to fulfill their obligations to the Company without further support from the Company.

Transactions with Officers, Directors and their Affiliates

Directors that are significant shareholders of Janifast Limited include Messrs Ronald A. Durando and Gustave T. Dotoli,

The Following Summaries Compensation to Related Parties for the Fiscal Year Ended June 30, 2009

	Durando	Dotoli	Biderman	Smiley	Microphase	TOTAL RELATED
Stock based compensation (options issued)**	$ 1,944,912	$ 1,166,947	$ 700,168	$ 77,796		$ 3,889,823
Total Compensation	$ 3,823,803	$ 2,372,061	$ 1,474,508	$ 386,196	$ 202,773	$ 8,259,341
Common Stock Issued*	27,000,000	16,000,000	10,000,000	4,000,000		57,000,000
Options issued (5 years @ 5 cents)**	50,000,000	30,000,000	18,000,000	2,000,000		100,000,000
	-	-	-	-	-	-

Summary of Transactions with Officers
Twelve Months Ended June 30, 2009

	RON DURANDO	GUS DOTOLI	MARTIN SMILEY	TOTAL
NOTES PAYABLE OFFICERS				
BALANCE 6/30/08	$0	$0	$204,038	$204,038
July 2008 Advances (Payments)	$0	$0	$2,500	$2,500
August 2008 Advances (Payments)	$0	$0	$711	$711
Sept 2008 Advances (Payments)	$0	$8,000	$9,289	$17,289
Oct 2007 Advances (Payments)	$0	($8,000)	$478	($7,522)
Nov 2008 Advances (Payments)	$0	$0	($10,000)	($10,000)
Dec 2008 Advances (Payments)	$17,000	$23,000	$22,810	$62,810
Jan 2009 Advances (Payments)	($17,000)	($23,000)	($8,016)	($48,016)
Feb 2009 Advances (Payments)	$0	$16,000	$10,000	$26,000
Mar 2009 Advances (Payments)	$0	($16,000)	$32,415	$16,415
Apr 2009 Advances (Payments)	$0	$0	$0	$0
May 2009 Advances (Payments)	$55,000	$30,000	$0	$85,000
June 2009 Advances (Payments)	($55,000)	($30,000)	$0	($85,000)
BALANCE Notes Payable Officers	**$0**	**$0**	**$264,225**	**$264,225**
Deferred Compensation Converted into Notes	**$278,000**	**$323,500**	**$0**	**$601,500**
Net Consulting Fees Converted into Notes	**$339,420**	**$127,256**	**$0**	**$466,676**
Total Notes Due to Officers	**$617,420**	**$450,756**	**$264,225**	**$1,332,400**
Due To Officers				
BALANCE 6/30/08	$298,990	$102,256	$0	$401,246
Consulting Fees & Expenses Incurred - 1st Qtr	$98,400	$70,500	$0	$168,900
Consulting Fees & Expenses Paid - 1st Qtr	($101,500)	($84,000)	$0	($185,500)
Consulting Fees & Expenses Incurred - 2nd Qtr	$66,817	$58,000	$0	$124,817
Consulting Fees & Expenses Paid - 2nd Qtr	($35,000)	($32,500)	$0	($67,500)
Consulting Fees & Expenses Incurred - 3rd Qtr	$60,501	$55,500	$0	$116,001
Consulting Fees & Expenses Paid - 3rd Qtr	($31,626)	($25,500)	$0	($57,126)
Converted into Notes	($339,582)	($127,256)	$0	($466,838)
Consulting Fees & Expenses Incurred - 4th Qtr	$0	$0	$0	$0
Consulting Fees & Expenses Paid - 4th Qtr	($17,000)	($11,450)	$0	($28,450)
Other Adjustment	$0	($5,550)	$0	($5,550)
Balance Due to Officers	**$0**	**$0**	**$0**	**$0**
Total Due to Officers Before Interest	**$617,420**	**$450,756**	**$264,225**	**$1,332,400**
Interest Payable	**$61,473**	**$62,514**	**$9,605**	**$133,592**
Total Payable to Officers	**$678,892**	**$513,270**	**$273,830**	**$1,465,992**
COMPENSATION				
Consulting / Salary Earned	$275,718	$229,000	$182,292	$687,010

Interest Earned	$61,473	$62,514	$21,048	$145,035
Stock Based Compensation - Shares	$1,541,700	$913,600	$571,000	$3,026,300
Stock Based Compensation - Options	$1,944,912	$1,166,947	$700,168	$3,812,027
Total Compensation Officers	**$3,823,803**	**$2,372,061**	**$1,474,508**	**$7,670,072**

The Following Summaries Compensation to Related Parties for the Fiscal Year Ended June 30, 2008

	Durando	Dotoli	Biderman	Smiley	Microphase	TOTAL RELATED
Consulting / Salary	$393,600	$282,000		$200,000		$875,600
Interest	$19,490	$4,156		$18,752		$42,398
Rent					$60,000	$60,000
R&D					$28,151	$28,151
Finders Fees			$188,472			$188,472
Cost of Sales and SG&A					$30,089	$30,089
Totals	**$413,090**	**$286,156**	**$188,472**	**$218,752**	**$118,240**	**$1,224,710**

Summary of amounts due to Officers
For the year ended June 30, 2008

	RON DURANDO	GUS DOTOLI	MARTIN SMILEY	TOTAL
NOTES PAYABLE OFFICERS				
BALANCE 6/30/07	$85,000	$75,000	$161,000	$321,000
July 2007 Advances (Payments)	($30,000)	($75,000)		($105,000)
August 2007 Advances (Payments)	$35,000	$75,100	$35,000	$145,100
Sept 2007 Advances (Payments)	$110,000			$110,000
Assumption of Note Payable- Sovereign	$110,000			$110,000
Oct 2007 Advances (Payments)	$25,000	$25,000	$25,000	$75,000
Nov 2007 Advances (Payments)	$76,000	$36,000	$11,000	$123,000
Dec 2007 Advances (Payments)	$25,000	$0	$0	$25,000
Transferred to Deferred Comp	($148,000)	($123,500)		($271,500)
Jan 2008 Advances (Payments)	$2,000	$32,000		$34,000
Feb 2008 Advances (Payments)	$0	$55,000	$72,038	$127,038
Mar 2008 Advances (Payments)	($180,000)	($47,500)	($40,000)	($267,500)
April 2008 Advances (Payments)	($110,000)	($52,100)	($45,000)	($207,100)
May 2008 Advances (Payments)			($15,000)	($15,000)
June 2008 Advances (Payments)				
BALANCE Notes Payable Officers	**$0**	**$0**	**$204,038**	**$204,038**
Deferred Compensation	**$278,000**	**$323,500**		**$601,500**
Due To Officers				
BALANCE 6/30/07	$188,400	$75,500		$263,900
Consulting Fee Earned -1st Qtr	$98,400	$70,500		$168,900
Consulting Fees Paid - 1st Qtr	($39,500)	($32,500)		($72,000)
Consulting Fee Earned - 2nd Qtr	$98,400	$70,500		$168,900
Consulting Fees Paid - 2nd Qtr	($10,000)	($10,000)		($20,000)
Consulting Fee Earned - 3rd Qtr	$98,400	$70,500		$168,900
Consulting Fees Paid - 3rd Qtr	($12,000)	($8,500)		($20,500)
Consulting Fee Earned - 4th Qtr	$98,400	$70,500		$168,900
Consulting Fees Paid - 4th Qtr	($221,510)	($204,244)		($425,754)
Balance Due to Officers	**$298,990**	**$102,256**		**$401,246**
Interest Payable	**$0**	**$0**	**$18,751**	**$18,751**
Totals Payable to Officers	**$576,990**	**$425,756**	**$222,789**	**$1,225,535**

The Following Summaries Compensation to Related Parties for the Fiscal Year Ended June 30, 2007

	Durando	Dotoli	Ergul	Biderman	Smiley	Guerino	Lawrence	Janifast	Microphase	TOTA RELATE
Consulting / Salary	$393,600	$282,000			$200,000					$875,6
Directors Stipend and Interest	$7,500	$7,538	$3,750	$3,750	$8,550	$3,750	$3,750			$38,5
Rent									$60,000	$60,0
R&D									$236,492	$236,4

Finders Fees (including common shares)				$520,000						$520,00
Cost of Sales and SG&A								$110,912	$36,342	$147,2
Reparations and Stock Based Compensation	$1,044,000	$555,000	$201,000	$16,800	$306,250	$14,700		$138,462		$2,276,2
Totals	**$1,445,100**	**$844,538**	**$204,750**	**$540,550**	**$514,800**	**$18,450**	**$3,750**	**$249,374**	**$332,834**	**$4,154,1**
PacketPort.com legal expense										**$611,8**
Total expense to related parties										**$4,765,9**

During the twelve months ended June 30, 2007, Mr. Biderman's through his affiliated firm of Palladium Capital Advisors earned finder's fees of $520,000 in connection with the raising of approximately $5 million in various equity transactions during the year.

In addition at various points during fiscal year ended June 2007, Messrs Durando, Dotoli and Smiley provided $650,000 in bridge loans to the Company which was evidenced by individual promissory notes. During December 2006, Messrs Durando and Dotoli agreed to convert their notes, in the amounts of $130,000 and $200,000 respectively, to a deferred compensation arrangement, the repayment terms of which have not been specified. Mr. Smiley has extended bridge loans to the Company of $160,000, evidenced by promissory notes for $101,000 and a $60,000 note with a 12% rate of interest. In summary as of June 30, 2007, bridge loans outstanding were $85,000, $75,000 and $161,000 to the Messrs Durando, Dotoli and Smiley, respectively. All of the foregoing promissory notes are payable on demand.

During the 12 month period ended June 30, 2006 Eagle Advisers, an investment banking firm founded by Mr. Abraham Biderman, a member of the Board of Directors of the Company, earned fees and reimbursement expenses of approximately $782,568 in connection with services in regard to private placements of the Company's common stock and warrants and raised a total of $5,820,652 net of such fees for the Company.

During the 12 month period ended June 30, 2005 Eagle Advisers, earned fees and reimbursement expenses of approximately $633,000 in connection with services in connection with private placements of the Company's common stock and warrants and raised a total of $6,117,000 net of such fees for the Company.

Additionally at June 30, 2004, Mr. Durando was owed $300,000 and Mr. Smiley was owed $100,000 by the Company as evidenced by a non-interest bearing promissory note that was repaid in July 2004. As of June 30, 2004 a total of $55,000 in the aggregate was due to Mr. Durando and Mr. Dotoli for unpaid compensation.

Mr. Durando's June 30, 2004 note payable balance of $300,000 was repaid by the Company during fiscal year 2005. During the first and second quarters of fiscal year 2005, Mr. Durando made additional bridge loans to the Company evidenced by various 12% demand notes in the aggregate of $525,000. Mr. Durando was repaid a total of $450,000 of such loans in January of 2005. In addition, Mr. Durando converted $13,954 of the principal amount of a $75,000 promissory note leaving unpaid principal of $61,046 outstanding. Mr. Durando converted $13,000 of accrued and unpaid interest on various promissory notes of the Company into 65,000 shares of common stock and a 5 year warrant to purchase a like amount of common stock at $.25 per share.

During the twelve month period ended June 30, 2005 Mr. Dotoli and Mr. Smiley, the COO, and CFO and General Counsel of the Company respectively, each lent the Company $75,000. Mr. Dotoli was repaid, the principal amount of such loan, in cash in January, 2005 and Mr. Smiley converted his $75,000 loan into 375,000 shares of common stock of the Company plus a 5 year warrant to purchase a like amount of shares at $.25 per share. In addition, Mr. Smiley converted $9,975 of accrued interest into 49,875 shares of common stock plus a 5 year warrant to purchase a like amount of shares at $.25 per share. Finally Mr. Smiley received 25,000 additional shares of common stock as a market adjustment to his equity investment of $25,000 on August 30, 2004. Mr. Dotoli cancelled $3,750 of accrued and unpaid interest from August 15, 2004 through January 15, 2004 into 375,000 shares of common stock pursuant to the terms of a portion of a warrant that was exercised at $.01 per share previously given by the Company to Mr. Dotoli in exchange for and cancellation of unpaid compensation. On January 15, 2004, Mr. Smiley was awarded 425,000 shares of common stock as additional compensation.

During the six months ending December 31, 2004, accounts payable in the amount of $250,000 owed by mPhase to Microphase Corporation was cancelled in exchange for the 1,250,000 shares of common stock and a 5 year warrant to purchase a like amount of shares at $.25.In addition for such period, Janifast Ltd. cancelled $200,000 of accounts payable owed by mPhase in exchange for 1,000,000 shares of common stock and a 5 year warrant to purchase a like amount of shares at $.25 per share.

In late February and early March of 2005, the various vendors converted approximately $173,898 in accounts payable due from the Company into 535,296 shares of Common stock aggregating $183,310 in full settlement of those obligations.

Mr. Ronald A. Durando converted $13,000 of accrued and unpaid interest on various demand notes issued by the Company for loans by Mr. Durando during the six month period ended December 31, 2004 into 65,000 shares of common stock plus a 5 year warrant to purchase a like amount of shares at $.25 per share. In addition Mr. Durando converted $13,954 of principal of a $75,000 promissory note into the exercise, in full, of a warrant to purchase 1,395,400 shares of common stock at $.01 previously granted to Mr. Durando in exchange for cancellation of unpaid compensation.

In June of 2005, Mr. Smiley converted the his 12% $100,000 note converted plus accrued interest thereon to 520,000 shares of common stock of mPhase at the rate of $.20 cents per share plus a 5 year warrant for an additional 520,000 shares of common stock at $.25 per share.

In addition a demand note payable to Martin Smiley, CFO and General Counsel of mPhase, in the amount of $75,000 was converted into 375,000 shares of common stock plus a 5 year warrant to purchase a like amount of shares at $.25 per share and Mr. Smiley extended from July 25, 2004 to July 25, 2005 a $100,000 promissory note carrying 12% interest. In addition Mr. Smiley converted accrued and unpaid interest on his various promissory notes of $ 9,975 through December 31, 2004 into 49,875 shares of common stock plus a 5 year warrant to purchase a like amount of common stock at $.25 per share. Mr. Smiley's remaining $100,000 note is convertible into Common Stock of mPhase at the rate of $.25 cents per share through July 25, 2009. Upon conversion, the note holder will be granted warrants to purchase an equivalent amount of mPhase Common Stock at $.25 cents per share for a period of five years from the date of conversion plus a 5 year warrant for a like amount of shares at $.25 per share. Mr. Ronald A. Durando converted $13,000 of accrued and unpaid interest on various demand notes issued by the Company for loans by Mr. Durando during the six month period ended December 31, 2004 into 65,000 shares of common stock plus a 5 year warrant to purchase a like amount of shares at $.25 per share. In addition Mr. Durando converted $13,954 of principal of a $75,000 promissory note into the exercise, in full, of a warrant to purchase 1,395,400 shares of common stock at $.01 previously granted to Mr. Durando in exchange for cancellation of unpaid compensation. Finally, Mr. Gustave Dotoli, Chief Operating Officer of the Company converted $ 3,750 of accrued and unpaid interest on a $75,000 promissory note into 375,000 shares of common stock at $.01 pursuant to a portion of a warrant previously granted to Mr. Dotoli for unpaid compensation.

During fiscal year end June 30, 2006, Mr. Edward Suozzo, a consultant of the Company, converted $50,000 of accounts payable owed by the Company into 331,864 shares of common stock plus a 5 year warrant to purchase 277,778 shares of common stock at $.18 per share. During fiscal year end June 30, 2005, Mr. Suozzo converted $20,000 of accounts payable owed by the Company into 100,000 shares of common stock plus a 5 year warrant to purchase 100,000 shares of common stock at $.25 per share.

During fiscal year end June 30, 2006, Microphase Corporation and Janifast Corp, both related parties respectively converted $369,000 and $171,000 of accounts payable owed by the Company into 2,050,000 and 950,000 shares of common stock plus a 5 year warrant to purchase 2,050,000 and 950,000 shares of common stock at $.18 per share.

During the three months ending September 30, 2004, a note payable in the amount of $180,000 to Microphase Corporation, Such note was extended by Microphase from July 25, 2004 and now matures on July 25, 2005. Additionally, a note payable to Martin Smiley, CFO and General Counsel of mPhase, in the amount of $100,000 was extended from July 25, 2004 to July 25, 2005. Both liabilities carry an interest rate of 12% payable quarterly in arrears and were extended effective June 30, 2004. Each note is convertible into Common Stock of mPhase at the rate of $.25 cents per share plus a 5 year warrant for a like amount of common stock at $.25 per share through July 25, 2005 and a second 5 year warrant at $.50 per share convertible into a like amount of shares.

On August 30, 2004, the Company paid $100,000 to Piper&Rudnick, LLP, its outside counsel, in connection with the renegotiation of a Payment Agreement effective June 30, 2004. Under the terms of the renegotiated Payment Agreement, the Company agreed to payments of $25,000 each on December 1, 2004, March 1, 2005, June 1, 2005 and September 1, 2005 and a payment of $50,000 on December 1, 2006 plus $25,000 payments on March 1, 2006, June 1, 2006, September 1, 2006 and a final payment of $75,000 payment on December 1, 2007. In addition, Piper&Rudnick LLP agreed to convert $150,000 of such payable into a 5 year cashless warrant to purchase the Company's common stock at $.25 per share.

On August 30, 2004 the Company issued two demand promissory notes each in the principal amount of $75,000 at 12% interest in consideration of loans of $75,000 to the Company from each of Mr. Dotoli, its COO and Mr. Smiley, its CFO and General Counsel. In addition on September 30, 2004, the Company issued a demand promissory note to Microphase Corporation, a related party, for a loan of $175,000 to the Company with a 12% interest rate. Finally, the Company issued demand promissory notes with an interest rate of 12% to Mr. Ronald Durando, CEO of the Company for loans made to the Company dated August 30, 2004, as well as demand promissory notes to Mr. Durando, its CEO, for loans to the Company of $200,000 on August 30, 2004, $75,000 on September 28, 2004 and $175,000 on September 30, 2004 respectively.

Necdet F. Ergul, Ronald A. Durando and Gustave T. Dotoli, our Chairman, Chief Executive Officer and Chief Operating Officer, respectively, are executive officers and shareholders of Microphase and Ronald Durando and Gustave T. Dotoli are president and vice- president of PacketPort.com., respectively.

On November 26, 1999, Mr. Durando acquired, via a 100% ownership of PacketPort, Inc., a controlling interest in Linkon Corporation, now known as PacketPort.com, Inc. On November 26, 1999, PacketPort, Inc., a company owned 100% by Mr. Durando, acquired controlling interest in Linkon Corp., which subsequently changed its name to PacketPort.com, Inc. In connection with this transaction, Mr. Durando transferred 350,000 shares of our common stock to PacketPort, Inc.

Transactions with Microphase Corporation

mPhase's President and Chairman of the Board of the Company are also employees of Microphase. On May 1, 1997, the Company entered into an agreement with Microphase, whereby it will use office space as well as the administrative services of Microphase, including the use of accounting personnel. This agreement for fiscal year 2006 required mPhase to pay Micophase $10,000 per month. Microphase also charges fees for specific projects on a project-by-project basis. During the year ended June 30, 2006 and for the period of time from mPhase's inception (October 2, 1996) to June 30, 2006, $531,820 and $8,670,776, respectively, have been charged to expense or inventory under these Agreements and is included in operating expenses in the accompanying consolidated statements of operations.

The Company is obligated to pay a 3% royalty to Microphase on revenues from its proprietary Traverser Digital Video and Data Delivery System and DSL component products.

Transactions with Janifast

Janifast Ltd., a Hong Kong corporation manufacturer, which has produced components for our prototype Traverser_ DVDDS product, and may produce such components for us in the future. Necdet F. Ergul, Ronald A. Durando and Gustave T. Dotoli are controlling shareholders of Janifast Ltd. with an aggregate ownership interest of greater than 75% of Janifast Ltd. Mr. Durando is Chairman of the Board of Directors and Mr. Ergul is a Director of Janifast.

Transactions with Other Related Parties

In March 2000, mPhase acquired a 50% interest in mPhaseTelevision.Net (formerly Telco Television Network, Inc.), an incorporated joint venture. This percentage was increased to approximately 57% in fiscal year 2001. Alpha Star International, Inc currently owns the remaining joint venture interest.

Effective June 30, 2004, the Company was $473,787 in arrears with respect to a Promissory Note issued to Piper Rudnick LLP plus other legal fees of $118,773.36. It should be noted that Piper & Rudnick received such Promissory Note plus two warrants received in March of 2002 that expired in March 8, 2007 in exchange for cancellation of certain payables. Such warrants have conversion rights into our common stock for a total of 2,233,490 shares that have been registered under a recently effective Form S-1 Registration Statement, and are cashless. On September 3, 2003, the Company paid $10,000 in cash to Piper in exchange for reducing the total payable to $550,000 plus the issuance of additional cashless warrant for $150,000 worth of the Company's common stock valued at $.25 per share. The remaining $300,000 payable had the following future payment schedule *:*

1. Payments of $25,000 each on December 1, 2004, March 1, 2005, June 1, 2005, September 1, 2005, March 1, 2006, June 1, 2006 and September 1, 2006.

2. A payment of $50,000 on December 1, 2005

3. A payment of $75,000 due on December 1, 2006

As of June 30, 2008 the Company has made all of the above payments except for the $75,000 due December 1, 2006, that was, in arrears.

SHAREHOLDERS PROPOSALS FOR THE 2009 ANNUAL MEETING

Shareholders who may wish to present proposals for inclusion in our Proxy materials and for consideration at the 2009 Annual Meeting of Shareholders must submit such proposals in writing to our corporate Secretary in accordance with all applicable rules and regulations of the SEC for receipt by us no later than December 15, 2009. A signed Proxy shall confer discretionary authority upon us to vote on all shareholder proposals that are not received by us on or before December 15, 2009.

COST OF SOLICITATION

The accompanying Proxy is solicited by and on behalf of our Board of Directors. We will bear the cost of soliciting proxies from its shareholders. In addition to solicitation by mail, our directors, officers and employees may solicit proxies by telephone, telegram or otherwise. Such directors, officers and employees will not receive additional compensation for such solicitation. Brokerage firms, nominees, custodians and fiduciaries also will be requested to forward Proxy materials to beneficial owners of shares held of record by them. We may reimburse brokerage firms, nominees, custodians, fiduciaries and other record holders for their reasonable out of pocket expenses in forwarding Proxy materials to the beneficial owners and obtaining their proxies.

ADDITIONAL INFORMATION

A copy of our Form 10K for the fiscal year ended June 30, 2008, is being provided to all shareholders with this Proxy Statement. In addition, Form 10-K with exhibits is available via the Internet at the website http://www.freeedgar.com ..

OTHER MATTERS

As of the date of this Proxy Statement, the Board of Directors knows of no matters which will be presented for consideration at the Annual Meeting other than the proposals set forth in this Proxy Statement. If any other matters properly come before the meeting, it is intended that the persons named in the Proxy will act in respect thereof in accordance with their best judgment.

By Order of the Board of Directors

Gustave T. Dotoli
Corporate Secretary

Norwalk, Connecticut

December 3, 2009

MPHASE TECHNOLOGIES ,INC.
C/O JERSEY TRANSFER
201 BLOOMFIELD AVE., SUITE 26
VERONA , NJ 07044

VOTE BY INTERNET - www.proxyvote.com
Use the Internet to transmit your voting instructions and for electronic delivery of information up until 11:59 P.M. Eastern Time the day before the cut-off date or meeting date. Have your proxy card in hand when you access the web site and follow the instructions to obtain your records and to create an electronic voting instruction form.

ELECTRONIC DELIVERY OF FUTURE SHAREHOLDER COMMUNICATIONS
If you would like to reduce the costs incurred by mPHASE TECHNOLOGIES, INC. in mailing proxy materials, you can consent to receiving all future proxy statements, proxy cards and annual reports electronically via e-mail or the Internet. To sign up for electronic delivery, please follow the instructions above to vote using the Internet and, when prompted, indicate that you agree to receive or access shareholder communications electronically in future years.

VOTE BY MAIL
Mark, sign and date your proxy card and return it in the postage-paid envelope we have provided or return it to mPHASE TECHNOLOGIES, INC., c/o ADP, 51 Mercedes Way, Edgewood, NY 11717.

TO VOTE, MARK BLOCKS BELOW IN BLUE OR BLACK INK AS FOLLOWS:
MPHSE1 KEEP THIS PORTION FOR YOUR RECORDS
DETACH AND RETURN THIS PORTION ONLY

THIS PROXY CARD IS VALID ONLY WHEN SIGNED AND DATED.

mPHASE TECHNOLOGIES, INC.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE "FOR" EACH OF THE PROPOSALS BELOW.

		For All	**Withhold All**	**For All Except**	To withhold authority to vote for any individual nominee(s), mark "FOR ALL EXCEPT" and write the nominee's number on the line below.
1.	Election of 01) Ronald A. Durando, 02) Gustave T. Dotoli, 03) Victor Lawrence 04) Abraham Biderman 05) Martin S. Smiley 06) Anthony H. Guerino as Directors of the Board of Directors until the next annual meeting.	o	o	o	

For **Against** **Abstain**

2.	Approval of our independent accountants, Rosenberg Rich Baker Berman & Co. for fiscal year 2009.	o	o	o
3.	Approval of an amendment to our Amended Certificate of Incorporation authorizing an increase in authorized shares of common stock of the Company from 2 billion shares to 3 billion shares $.01 par value	o	o	o

Note: Please sign exactly as your name appears hereon. Joint owners should each sign. When signing as attorney, executor, administrator, trustee, or guardian, please give full titles as such.

For address changes/comments, please check this box and write them on the back where indicated	o

	Yes	**No**
Please indicate if you plan to attend this meeting	o	o
HOUSEHOLDING ELECTION - Please indicate if you consent to receive certain future investor communications in a single package per household	o	o

Signature [PLEASE SIGN WITHIN BOX] Date Signature (Joint Owners) Date

PROXY

mPHASE TECHNOLOGIES, INC.
ANNUAL MEETING OF SHAREHOLDERS
January 25, 2010, 10:00 A.M.

The undersigned hereby appoints Gustave T. Dotoli and Martin Smiley or either of them individually, with full power of substitution, to act as proxy and to represent the undersigned at the Annual Meeting of Shareholders and to vote all shares of mPhase Technologies, Inc., which the undersigned is entitled to vote and would possess if personally present at said meeting to be held at our offices at 587 Connecticut Avenue, Norwalk, CT 06854, on Wednesday January 25, 2009 at 10:00 a.m. and at all postponements or adjournments upon the matters listed on the reverse side.

THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS. THIS PROXY, WHEN PROPERLY EXECUTED, WILL BE VOTED IN THE MANNER DIRECTED HEREIN. IF NO DIRECTION IS MADE, THIS PROXY WILL BE VOTED FOR PROPOSALS 1, 2 and 3 LISTED ON THE REVERSE SIDE. PROXIES ARE ALSO GRANTED THE DISCRETION TO VOTE UPON ALL OTHER MATTERS THAT MAY PROPERLY BE BROUGHT BEFORE THE MEETING OR ANY POSTPONEMENT OR ADJOURNMENT THEREOF.

Address Changes/Comments:

(If you noted any Address Changes/Comments above, please mark corresponding box on the reverse side.)

(Continued, and to be signed on back)

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font style="DISPLAY: inline; FONT-SIZE: 7pt; FONT-FAMILY: times new roman"> 1% 12,124 0% 8,078 0% 42,145 1% 84,954 2%

Medicare
530,833 16% 56,334 2% 33,149 1% 12,054 0% 23,378 1% 53,993 2% 709,741 22%

Private Pay
25,341 1% 35,004 1% 29,354 1% 15,969 0% 13,114 0% 27,142 1% 145,924 4%

Unbilled Revenue
60,523 2% - - - - - - - - - 60,523 2%

Total
$1,247,142 39% $506,202 16% $499,700 16% $321,389 8% $260,426 7% $437,314 14% $3,272,173 100%

During 2009, we decreased our accounts receivable greater than 120 days as a percentage of total accounts receivable by 3%. This decrease could have been larger but an increase in Medicare receivables greater than 150 days resulted because of delays in receiving our Medicare provider number for our Chatsworth facility from California Medicare. The licensing and inspections of this facility were completed and valid but significant delays in the processing of our application by California Medicare caused the application to become stale resulting in us having to resubmit the application several times. In January 2010 we received our provider number and we expect to be able to resubmit all previous claims and receive payment on them during the year ending December 31, 2010.

Based on a detailed analysis, we believe that our $589,000 allowance for doubtful accounts, which represents approximately 11% of our receivables balance, is adequate as of December 31, 2009. At December 31, 2008, our allowance for doubtful accounts was $359,000 or 11% of accounts receivable.

Stock Based Compensation.

The Company accounts for stock-based compensation in accordance with FASB ASC Topic 718 Compensation – Stock Compensation. ASC Topic 718 requires recognizing compensation costs for all share-based payment awards made to employees and directors based upon the awards' grant-date fair value.

For stock options, the Company uses a trinomial lattice option-pricing model to estimate the grant-date fair value of stock option awards, and recognizes compensation cost on a straight-line basis over the awards' requisite service periods. The Company estimates an expected forfeiture rate, which is factored into the determination of the Company's quarterly expense.

See Note B – Summary of Significant Accounting Policies - Stock-Based Compensation and Note F – Stock Based Compensation in the Notes to Consolidated Financial Statements for more information regarding the valuation of stock-based compensation.

Results of Operations for the Three Months Ended March 31, 2010 as Compared to the Three Months Ended March 31, 2009

The following table presents the condensed consolidated statements of operations as a percentage of revenue:

	For the three months ended March 31.	
	2010	2009
NET REVENUE	100%	100%
COST OF REVENUE	52%	45%
GROSS PROFIT	48%	55%
OPERATING EXPENSES:		
General and administrative	34%	34%
Sales and marketing	21%	19%
TOTAL OPERATING EXPENSES	55%	53%
Interest (income) expense, net	2%	2%
NET INCOME (LOSS)	(9)%	0%

Revenue

The Company's specialized testing services are performed based on a written test requisition form and revenues are recognized once the testing services have been performed, the results have been delivered to the ordering physician, the payor has been identified and eligibility and insurance have been verified. Our testing services are billed to various payors, including Medicare, commercial insurance companies, other directly billed healthcare institutions such as hospitals and clinics, and individuals. We report revenues from contracted payors, including Medicare, certain insurance companies and certain healthcare institutions, based on the contractual rate, or in the case of Medicare, published fee schedules. We report revenues from non-contracted payors, including certain insurance companies and individuals, based on the amount expected to be collected. The difference between the amount billed and the amount expected to be collected from non-contracted payors is recorded as a contractual allowance to arrive at the reported revenues. The expected revenues from non-contracted payors are based on the historical collection experience of each payor or payor group, as appropriate. In each reporting period, we review our historical collection experience for non-contracted payors and adjust our expected revenues for current and subsequent periods accordingly.

Revenues increased approximately 22%, or $1.5 million, to $8.4 million for the three months ended March 31, 2010 as compared to $6.9 million for the three months ended March 31, 2009. The revenue increase for the three months ended March 31, 2010, as compared to the comparable period in 2009, was primarily driven by increases in the number of tests performed partially offset by a decline in average revenue per test.

Test volume increased approximately 34% for the three months ended March 31, 2010. Increases in test volumes were primarily driven by the substantial increases in sales and marketing activities by the Company over the past twelve months.

Revenues per test are a function of both the type of the test (e.g. FISH, cytogenetics, flow cytometry, etc.) and the payer (e.g., Medicare, Medicaid, third party insurer, institutional client etc.). Average revenue per test is primarily driven by our test type mix and our payer mix. The decrease in average revenue per test for the three months ended March 31, 2010 is primarily the result of decreases in our managed care reimbursements and to a lesser extent from lower priced tests in our test type mix.

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) payments directly from patients, and c) those procedures that are not covered by insurance or other third party payers. The Company's allowance for doubtful accounts increased 18%, or approximately $106,000 to $695,000, as compared to $589,000 at December 31, 2009. The allowance for doubtful accounts was approximately 11% of accounts receivable on March 31, 2010 and December 31, 2009.

Cost of Revenue

Cost of revenue includes payroll and payroll related costs for performing tests, depreciation of laboratory equipment, rent for laboratory facilities, laboratory reagents, probes and supplies, and delivery and courier costs relating to the transportation of specimens to be tested.

Cost of revenue increased approximately 41%, or $1.2 million, to $4.3 million for the three months ended March 31, 2010 as compared to $3.1 million for the three months ended March 31, 2009. The increase was primarily attributable to increases in all areas of costs of revenue as the Company scaled its operations in order to meet increasing demand. Cost of revenue as a percentage of revenue was approximately 52% for the three months ended March 31, 2010 as compared to 45% for the three months ended March 31, 2009.

Accordingly, gross margin was approximately 48% for the three months ended March 31, 2010 as compared to 55% for the three months ended March 31, 2009. This decline in gross margin is primarily the result of our largest customer at March 31, 2009 bringing in-house certain high margin tests in the second quarter of 2009 and replacing a portion of that volume with additional low margin testing. This customer represented 6% of total revenue for the three months ended March 31, 2010 compared to 18% for the comparable period in 2009.

Sales and Marketing

Sales and marketing expenses relate primarily to the employee related costs of our sales management, sales representatives, marketing, and customer service personnel.

	For the three months ended March 31, 2010	For the three months ended March 31, 2009	% Change
Sales and marketing	$ 1,763,000	$ 1,334,000	32%
As a % of revenue	21%	19%	

The increase in sales and marketing expenses is primarily a result of adding substantial numbers of sales and marketing personnel in 2009 to generate additional revenue growth as well as marketing costs related to our Melanoma FISH test.

We expect our sales and marketing expenses to increase as we hire additional sales management, sales representatives, and marketing personnel as part of our growth strategy. However, we expect these expenses to decline as a percentage of revenue as our case volumes increase and we develop more economies of scale in our sales and marketing activities.

General and Administrative Expenses

General and administrative expenses relate to billing, bad debts, finance, human resources, information technology, and other administrative functions. They primarily consist of employee related costs (such as salaries, fringe benefits, and stock-based compensation expense), professional services, facilities expense, and depreciation and administrative-related costs allocated to general and administrative expenses. In addition, the provision for doubtful accounts is included in general and administrative expenses.

	For the three months ended March 31,		
	2010	2009	% Change
General and administrative	$ 2,902,000	$ 2,341,000	24%
As a % of revenue	34%	34%	

The increase in general and administrative expenses is primarily a result of adding additional management and information technology personnel and due to approximately $200,000 of additional R&D expenses incurred to develop the Melanoma FISH test.

Bad debt expense increased by approximately 7%, or $33,000, to $540,000 for the three months ended March 31, 2010 as compared to $508,000 for the three months ended March 31, 2009. Bad debt expense as a percentage of revenue for the three months ended March 31, 2010 was 6.5% as compared to 7.3% for the three months ended March 31, 2009.

The decrease in bad debt expense as a percentage of revenue is the result of improvements in our billing practices.

We expect our general and administrative expenses to increase as we add personnel; increase our billing and collections activities; incur additional expenses associated with the expansion of our facilities and backup systems; and continue to build our physical infrastructure to support our anticipated growth. However, we expect general and administrative expenses to decline as a percentage of our revenue as our case volumes increase and we develop more operating leverage in our business.

Interest Expense, net

Interest expense net, which represents the interest expense we incur on our borrowing arrangements offset by the interest income we earn on cash deposits. Interest expense, net increased approximately 39%, or $44,000 to $159,000 for the three months ended March 31, 2010 as compared to $115,000 for the three months ended March 31, 2009. Interest expense is primarily related to the amount of our capital leases outstanding and to a lesser extent to the borrowing under our credit facility with CapitalSource Finance, LLC (“CapitalSource”). Interest expense increased over the same period in the prior year primarily as a result of the higher capital lease and working capital facility balances as of March 31, 2010 as compared to March 31, 2009.

Net Income (Loss)

As a result of the foregoing, we reported a net loss of $750,000, or $(0.02)/share, for the three months ended March 31, 2010 as compared to a net income of $33,000, or $0.00/share, for the three months ended March 31, 2009.

Results of Operations for the year ended December 31, 2009 as compared with the year ended December 31, 2008

The following table presents the condensed consolidated statements of operations as a percentage of revenue:

	For the year ended December 31.	
	2009	2008
NET REVENUE	100%	100%
COST OF REVENUE	48%	47%
GROSS PROFIT	52%	53%

OPERATING EXPENSES:		
General and administrative	34%	41%
Sales and marketing	24%	17%
TOTAL OPERATING EXPENSES	58%	58%
Interest (income) expense, net	2%	2%
NET INCOME (LOSS)	(8)%	(7)%

Revenue

The Company's specialized testing services are performed based on a written test requisition form and revenues are recognized once the testing services have been performed, the results have been delivered to the ordering physician, the payor has been identified and eligibility and insurance have been verified. Our testing services are billed to various payors, including Medicare, commercial insurance companies, other directly billed healthcare institutions such as hospitals and clinics, and individuals. We report revenues from contracted payors, including Medicare, certain insurance companies and certain healthcare institutions, based on the contractual rate, or in the case of Medicare, published fee schedules. We report revenues from non-contracted payors, including certain insurance companies and individuals, based on the amount expected to be collected. The difference between the amount billed and the amount expected to be collected from non-contracted payors is recorded as a contractual allowance to arrive at the reported revenues. The expected revenues from non-contracted payors are based on the historical collection experience of each payor or payor group, as appropriate. In each reporting period, we review our historical collection experience for non-contracted payors and adjust our expected revenues for current and subsequent periods accordingly.

During the year ended December 31, 2009, our revenues increased approximately 47% to $29,469,000 from $20,015,000 during the year ended December 31, 2008. ..

Test volume increased approximately 40% for the year ended December 31, 2009. Increases in test volumes were primarily driven by the substantial increases in sales and marketing activities by the Company over the past year.

For the year ended December 31, 2009, our average revenue per client requisition increased by approximately 15% to $931 from $808 in 2008. Our average revenue per test increased by approximately 5% to $645 in 2009 from $615 in 2008. Revenues per test are a function of both the type of the test and the payer.

Cost of Revenue

Cost of revenue includes payroll and payroll related costs for performing tests, depreciation of laboratory equipment, rent for laboratory facilities, laboratory reagents, probes and supplies, and delivery and courier costs relating to the transportation of specimens to be tested.

Our cost of revenue, as a percentage of gross revenue, increased from 47% for the year ended December 31, 2008 to 48% for the year ended December 31, 2009. This increase was primarily the result of the restructuring of our relationship with our largest customer and the resulting change in mix from a higher margin test to a lower margin test.

Gross Profit

As a result of the 47% increase in revenue and our 48% cost of revenue, our gross profit increased 43% to $15,215,000 for the year ended December 31, 2009, from a gross profit of $10,661,000 for the year ended December 31, 2008. When expressed as a percentage of revenue, our gross margins decreased from 53.3% for the year ended December 31, 2008 to 51.6% for the year ended December 31, 2009.

Sales and Marketing

Sales and marketing expenses relate primarily to the employee related costs of our sales management, sales representatives, marketing, and customer service personnel.

For the year ended

	December 31.		
	2009	2008	% Change
Sales and marketing	$ 6,885,000	$ 3,367,000	105%
As a % of revenue	23%	17%	

Sales and marketing expenses increased approximately 105%, or $3,519,000 to $6,885,000 for the year ended December 31, 2009 as compared to $3,367,000 for the year ended December 31, 2008, primarily as a result of adding substantial numbers of sales and marketing personnel in 2009 to generate additional revenue growth. At December 31, 2009, we had 43 sales and marketing and customer care personnel compared with 33 sales and marketing and customer care personnel at December 31, 2008.

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We expect our sales and marketing expenses to increase as we hire additional sales management, sales representatives, and marketing personnel as part of our growth strategy. However, we expect these expenses to decline as a percentage of revenue as our case volumes increase and we develop more economies of scale in our sales and marketing activities.

General and Administrative Expenses

General and administrative expenses relate to billing, finance, human resources, information technology, and other administrative functions. They primarily consist of employee related costs (such as salaries, fringe benefits, and stock-based compensation expense), professional services, facilities expense, and depreciation and administrative-related costs allocated to general and administrative expenses. In addition, the provision for doubtful accounts is included in general and administrative expenses.

	For the year ended December 31.		
	2009	2008	% Change
General and administrative	$ 10,057,000	$ 8,179,000	23%
As a % of revenue	34%	41%	

General and administrative expenses increased approximately 23%, or $1,878,000 to $10,057,000 for the year ended December 31, 2009 as compared to $8,179,000 for the year ended December 31, 2008. The increase in general and administrative expenses is primarily a result of adding additional management, information technology, and billing personnel to support the increase in our revenue.

Bad debt expense increased by approximately 20%, or $365,000 to $2,155,000 for the year ended December 31, 2009 as compared to $1,790,000 for the year ended December 31, 2008. This increase was primarily a result of the significant increases in revenue partially offset by a decrease in bad debt as percentage of revenue. Bad debt as a percentage of revenue decreased 1.6% to 7.3% for the year ended December 31, 2009 from 8.9% of revenue for the year ended December 31, 2008. This decline was the result of managed care contracts we entered into during the year and improved performance by our billing department.

We expect our general and administrative expenses to increase as we add personnel, increase our billing and collections activities; incur additional expenses associated with the expansion of our facilities and backup systems; and continue to build our physical infrastructure to support our anticipated growth. However, we expect general and administrative expenses to continue to decline as a percentage of our revenue as our case volumes increase and as we continue to develop more operating leverage in our business.

Other (Income) Expense

Other income and expense primarily represents the interest expense we incur on our borrowing arrangements (primarily comprised of interest payable on advances under our revolving credit facility with Capital Source and interest paid on capital lease obligations) offset by the interest income we earn on cash deposits. Interest expense increased from $309,000 in 2008 to $532,000 in 2009, reflecting higher borrowings, particularly related to our capital lease obligations as we acquired additional equipment to support our increasing volume of business. This increase was largely offset in 2009 because in 2008 we incurred a one-time $200,000 write down of our investment associated with a potential joint venture, as discussed in Note M to our consolidated financial statements.

Net Loss

As a result of the foregoing, our net loss increased approximately 62% from approximately ($1,383,000) or $(0.04) per share for the year ended December 31, 2008 to approximately ($2,243,000) or $(0.06) per share for the year ended December 31, 2009.

Commitments

Employment Contracts with named Executive Officers

The Company is a party to employment contracts with several of its officer's that contain commitments as described in Note G to our consolidated financial statements and detailed below is a list of all such contracts signed during 2009.

On March 16, 2009, the Company entered into an employment agreement with Douglas M. VanOort (the "Employment Agreement") to employ Mr. VanOort in the capacity of Executive Chairman and interim Chief Executive Officer. The Employment Agreement has an initial term from March 16, 2009 through March 16, 2013, which initial term automatically renews for one year periods. Mr. VanOort will receive a salary of $225,000 per year for so long as he spends not less than 2.5 days per week on the affairs of the Company. He will receive an additional $50,000 per year while serving as the Company's interim Chief Executive Officer; provided that he spends not less than 3.5 days per week on average on the affairs of the Company. Mr. VanOort is also eligible to receive an annual cash bonus based on the achievement of certain performance metrics of at least 30% of his base salary (which includes amounts payable with respect to serving as Executive Chairman and interim Chief Executive Officer). Mr. VanOort is also entitled to participate in all of the Company's employee benefit plans and any other benefit programs established for officers of the Company.

The Employment Agreement also provides that Mr. VanOort will be granted an option to purchase 1,000,000 shares of the Company's common stock under the Company's Amended and Restated Equity Incentive Plan (the "Amended Plan"). The exercise price of such option is $0.80 per share. 500,000 shares of common stock subject to the option will vest according to the following schedule (i) 200,000 shares will vest on March 16, 2010 (provided that if Mr. VanOort's employment is terminated by the Company without "cause" then the pro rata portion of such 200,000 shares up until the date of termination shall vest); (ii) 12,500 shares will vest each month beginning on April 16, 2010 until March 16, 2011; (iii) 8,000 shares will vest each month beginning on April 16, 2011 until March 16, 2012 and (iv) 4,500 shares will vest each month beginning on April 16, 2012 until March 16, 2013. 500,000 shares of common stock subject to the option will vest based on the achievement of certain performance metrics by the Company. Any unvested portion of the option described above shall vest in the event of a change of control of the Company.

Either party may terminate Mr. VanOort's employment with the Company at any time upon giving sixty days advance written notice to the other party. The Company and Mr. VanOort also entered into a Confidentiality, Non-Solicitation and Non-Compete Agreement in connection with the Employment Agreement.

On March 16, 2009, the Company and the Douglas M. VanOort Living Trust entered into a Subscription Agreement (the "Subscription Agreement") pursuant to which the Douglas M. VanOort Living Trust purchased 625,000 shares of the Company's common stock at a purchase price of $0.80 per share (the "Subscription Shares"). The Subscription Shares are subject to a two year lock-up that restricts the transfer of the Subscription Shares; provided, however, that such lock-up shall expire in the event that the Company terminates Mr. VanOort's employment. The Subscription Agreement also provides for certain piggyback registration rights with respect to the Subscription Shares.

On March 16, 2009, the Company and Mr. VanOort entered into a Warrant Agreement (the "Warrant Agreement") pursuant to which Mr. VanOort, subject to the vesting schedule described below, may purchase up to 625,000 shares of the Company's common stock at an exercise price of $1.05 per share (the "Warrant Shares"). The Warrant Shares vest based on the following vesting schedule:

(i) 20% of the Warrant Shares vest immediately,

(ii) 20% of the Warrant Shares will be deemed to be vested on the first day on which the closing price per share of the Company's common stock has reached or exceeded $3.00 per share for 20 consecutive trading days,

(iii) 20% of the Warrant Shares will be deemed to be vested on the first day on which the closing price per share of the Company's common stock has reached or exceeded $4.00 per share for 20 consecutive trading days,

(iv) 20% of the Warrant Shares will be deemed to be vested on the first day on which the closing price per share of the Company's common stock has reached or exceeded $5.00 per share for 20 consecutive trading days and

(v) 20% of the Warrant Shares will be deemed to be vested on the first day on which the closing price per share of the Company's common stock has reached or exceeded $6.00 per share for 20 consecutive trading days.

In the event of a change of control of the Company in which the consideration payable to each common stockholder of the Company in connection with such change of control has a deemed value of at least $4.00 per share then the Warrant Shares shall immediately vest in full. In the event that Mr. VanOort resigns his employment with the Company or the Company terminates Mr. VanOort's employment for "cause" at any time prior to the time when all Warrant Shares have vested, then the rights under the Warrant Agreement with respect to the unvested portion of the Warrant Shares as of the date of termination will immediately terminate.

On October 28, 2009, the Company appointed Mr. VanOort, to the position of Chief Executive Officer and amended and restated his employment agreement, as previously disclosed, pursuant to a Current Report on Form 8-K filed with the Securities and Exchange Commission on November 3, 2009. Mr. VanOort previously held the position of Executive Chairman and Interim Chief Executive Officer of the Company from March 16, 2009 until October 28, 2009. Mr. VanOort also serves as the Chairman of the Company's Board of Directors.

On July 22, 2009, the Company entered into an employment agreement with Grant Carlson (to employ Mr. Carlson in the capacity of Vice President Sales.. The Offer Letter provides for a four (4) year term, which is terminable upon written notice by either party. The Offer Letter also provides for an initial base salary of $200,000 per year and provides that Mr. Carlson is eligible to receive an incentive bonus targeted at 30% of his base salary based on the achievement of certain goals. Mr. Carlson is entitled to participate in all medical and other benefits that the Company has established for its employees. Mr. Carlson also is entitled to an automobile allowance of $700 per month (plus reimbursement for work-related gas expenses) and reimbursement for personal telephone and cell phone use at a rate of $250 per month. Mr. Carlson is also eligible for four (4) weeks of paid time off per year. Mr. Carlson is also eligible for up to $20,000 of relocation assistance. Mr. Carlson was granted 150,000 stock options at an exercise price of $1.34 and with a five year term so long as Mr. Carlson remains an employee of the Company. These options are scheduled to vest according to the passage of time. So long as Mr. Carlson remains employed by the Company, such option will have a five-year term and will be subject to time and performance based vesting. If Mr. Carlson resigns prior to July 6, 2010, he will forfeit the option. If the Company terminates Mr. Carlson without cause then the Company will continue to pay Mr. Carlson's base salary and maintain his employee benefits for a period of six (6) months.

On November 30, 2009, we entered into an employment agreement with George Cardoza, our Chief Financial Officer. The Employment Agreement has an initial term from November 30, 2009 through November 29, 2013, which initial term automatically renews for one year periods. The employment agreement specifies an initial base salary of $190,000/year. Mr. Cardoza is also entitled beginning with the year ended December 31, 2010 to receive cash bonuses for any given fiscal year in an amount equal to 30% of his base salary if he meets certain goals established by the CEO and approved by the board of directors. In addition, Mr. Cardoza was granted 150,000 stock options at an exercise price of $1.55 and with a five year term so long as Mr. Cardoza remains an employee of the Company. These options are scheduled to vest according to the passage of time. Mr. Cardoza's employment agreement also specifies that he is entitled to four weeks of paid vacation per year and other insurance benefits. Mr. Cardoza is also eligible for up to $20,000 of relocation assistance. In the event that Mr. Cardoza is terminated without cause by the Company, the Company has agreed to pay Mr. Cardoza's base salary and maintain his benefits for a period of six months.

On December 7, 2009, we entered into an employment agreement with Jack G. Spitz, our Vice President of Laboratory Operations. The Employment Agreement has an initial term from December 7, 2009 through December 6, 2013, which initial term automatically renews for one year periods. The employment agreement specifies an initial base salary of $210,000/year. Mr. Spitz is also entitled beginning with the year ended December 31, 2010 to receive cash bonuses for any given fiscal year in an amount equal to 30% of his base salary if he meets certain goals established by the President or CEO and approved by the board of directors. In addition, Mr. Spitz was granted 150,000 stock options at an exercise price of $1.52 and with a five year term so long as Mr. Spitz remains an employee of the Company. These options are scheduled to vest according to the passage of time. Mr. Spitz's employment agreement also specifies that he is entitled to four weeks of paid vacation per year and other insurance benefits. Mr. Spitz is also eligible for up to $35,000 of relocation assistance. In the event that Mr. Spitz is terminated without cause by the Company, the Company has agreed to pay Mr. Spitz's base salary and maintain his benefits for a period of six months.

Purchase Commitments

The Company had open purchase commitments with two vendors of laboratory equipment for approximately $500,000 of equipment at December 31, 2009. This equipment was delivered in January 2010.

Operating Commitments

The Company leases its laboratory and office facilities under non-cancelable operating leases. Please refer to Note G of the consolidated financial statements for a schedule of commitments for operating leases.

Capital Lease Obligations

The Company leases certain property and equipment under various agreements accounted for as capital lease obligations. Please refer to Note K of the consolidated financial statements for a schedule of capital lease commitments. Two lease lines were established during the fourth quarter of 2010 as below.

Wells Fargo Lease Agreement

On October 2, 2009, we and Wells Fargo Equipment Finance, Inc. ("Wells Fargo"), entered into a Master Lease Agreement (the "Wells Fargo Lease"). The Wells Fargo Lease establishes the general terms and conditions pursuant to which NeoGenomics Laboratories, Inc. may lease $750,000 in equipment. Advances under the lease line may be made for 180 days by executing supplemental schedules for each advance, which would have a 60 month term.

On October 2, 2009, we entered into Lease Supplement No. 1 of the Wells Fargo Lease for $265,200 which was funded to one vendor for lab equipment. Supplement No. 1 has a term of 60 months with monthly payments of $5,396 and a $1.00 final purchase payment at termination. Supplement No. 1 is being accounted for as a capital lease.

At December 31, 2009 there was $484,800 remaining on this capital lease line.

SunTrust Lease Agreement

On October 28, 2009, we and SunTrust Equipment Finance & Leasing Corp. ("SunTrust"), entered into an equipment lease agreement (the "SunTrust Lease"). The SunTrust Lease establishes the general terms and conditions pursuant to which the Subsidiary may lease up to $1.5 million in equipment and other property.

On November 12, 2009, we entered into Lease Schedule No. 1 of the SunTrust lease for $428,465 which was funded to several vendors for lab equipment, computer hardware and furniture and fixtures. Schedule 1 has a term of 60 months with monthly payments of $8,433 and a $1.00 final purchase payment at termination. Schedule No. 1 is being accounted for as a capital lease. As part of this schedule, we agreed to keep at least $1,000,000 in compensating cash balances with SunTrust as long as we owed any monies under the schedule. This balance is accounted for as current restricted cash as we have the ability to pay-off the schedule at any time and as a result of that we have shown the principal owed on the arrangement as a current liability.

At December 31, 2009 there was $1,071,535 available to borrow on this facility.

Liquidity and Capital Resources

The following table presents a summary of our cash flows provided by (used in) operating, investing and finance activities for the three months ended March 31, 2010 and 2009 as well as the period ending cash and cash equivalents and working capital.

	For the three months ended March 31.	
	2010	2009
Net cash provided by (used in):		
Operating activities	$ (1,564,000)	$ (331,000)
Investing activities	(114,000)	(6,000)
Financing activities	1,708,000	726,000
Net increase in cash and cash equivalents	30,000	389,000

Cash and cash equivalents, beginning of period	1,631,000	468,000
Cash and cash equivalents, end of period (1)	$ 1,661,000	$ 857,000
Working Capital (2), end of period	$ 1,766,000	$ 2,744,000

(1) This excludes restricted cash of $1.0M

(2) Defined as current assets - current liabilities.

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The large increase in cash used in operations for the three months ended March 31, 2010 as compared to the comparable period in 2009 is primarily the result of loss from operations, increases in our Accounts Receivable from increased revenues, as well as the result of legislation that expired on December 31, 2009 which grandfathered the implementation of new reimbursement procedures for the technical component of Medicare tests performed for certain hospital clients (known as the "TC Grandfather" legislation). The extension of this legislation was part of the Patient Protection and Affordable Care Act, HR 3590 which was delayed and not signed by the President until late March 2010. As a result of this the Centers for Medicare and Medicaid Services ("CMS"), had asked reference laboratories to hold off on submission of the grandfather related claims and therefore we did not submit claims for approximately $750,000 until the last week of March 2010. We expect to be paid on these claims in the second quarter of 2010 and have seen significant cash collections in April related to these claims.

The increase in cash used in investing activities relates to paying more cash for capital expenditures than in the prior year.

The increase in net cash flow provided by financing activities was primarily the result of increases in funding on our Capital Source working capital facility related to the increase in Accounts Receivable as well as our operating losses. This funding was partially offset by payments on our capital lease facilities.

The following table presents a summary of our cash flows provided by (used in) operating, investing and financing activities for the year ended December 31, 2009 and 2008 as well as the period ending cash and cash equivalents and working capital.

	For the year ended December 31.	
	2009	2008
Net cash provided by (used in):		
Operating activities	$ (1,500,417)	$ (138,306)
Investing activities	(963,740)	(501,781)
Financing activities	3,627,055	897,685
Net increase in cash and cash equivalents	1,162,898	257,598
Cash and cash equivalents, beginning of period	468,171	210,573
Cash and cash equivalents, end of period	$ 1,631,069	$ 468,171
Working Capital (1), end of period	$ 2,743,903	$ (35,425)

(1) Defined as current assets less current liabilities.

During the year ended December 31, 2009, our operating activities used approximately $1,500,000 of cash compared with $138,000 of cash used in the comparable period in 2008. This increase was primarily as a result of the increase in accounts receivable in 2009 as compared with 2008. Cash used in investing activities was approximately $964,000 in 2009 compared with $502,000 in 2008, reflecting increased purchases of equipment to support our increased volume of business. In 2009, our net cash flow provided by financing activities was approximately $3,627,000 which was primarily derived from sales of our common stock and the exercise of common stock warrants. At December 31, 2009 and 2008, we had unrestricted cash and cash equivalents of approximately $1,630,000 and $468,000 respectively. We also had $1,000,000 of restricted cash at December 31, 2009.

On November 5, 2008, we entered into a common stock purchase agreement (the "Stock Agreement") with Fusion Capital Fund II, LLC an Illinois limited liability company ("Fusion"). The Stock Agreement, which has a term of 30 months, provides for the future funding of up to $8.0 million from sales of our common stock to Fusion on a when and if needed basis as determined by us in our sole discretion, depending on, among other things, the market price of our common stock. As of March 31, 2010, we had not drawn on any amounts under the Fusion Stock Agreement.

On February 1, 2008, we entered into a revolving credit facility with CapitalSource, which allows us to borrow up to $3,000,000 based on a formula which is tied to our eligible accounts receivable that are aged less than 150 days.

As of March 31, 2010, we had approximately $1,661,000 in cash on hand, $547,000 of availability under our credit facility, and up to $8.0 million under the Fusion Stock Agreement. As such, we believe we have adequate 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.

On April 26, 2010 as described more fully in subsequent events we increased our Credit Facility to $5.0 million and we had an outstanding amount due on the Credit Facility of approximately $2.3 million and the available credit under the Credit Facility was approximately $1.7 million.

Capital Expenditures

We currently forecast capital expenditures 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 $3.0 million to $4.0 million of additional capital equipment during the next year. We plan to fund these expenditures with cash, through bank loan facilities, and through capital lease financing arrangements. If we are unable to obtain such funding, we will need to pay cash for these items or we will be required to curtail our equipment purchases, which may have an impact on our ability to continue to grow our revenues. Please see Note K to the consolidated financial statements for further detail with respect to lease financing facilities.

Subsequent Events

SunTrust Lease Agreement

On April 13, 2010, the Company entered into Lease Schedule No. 3 of the SunTrust lease for approximately $249,000 which was funded to several vendors for lab equipment and computer hardware. Schedule 3 has a term of 60 months with monthly payments of approximately $4,900 and a $1.00 final purchase payment at termination. Schedule No. 3 is being accounted for as a capital lease.

After entering into Lease Schedule No. 3 on January 19, 2010, we have approximately $533,000 available for further advances under the SunTrust Lease.

Amended and Restated Revolving Credit and Security Agreement with Capital Source Bank

On April 26, 2010, the Parent Company, NeoGenomics Laboratories, Inc., the wholly-owned subsidiary of the Parent Company ("Borrower"), and CapitalSource entered into an Amended and Restated Revolving Credit and Security Agreement (the "Amended and Restated Credit Agreement"). The Amended and Restated Credit Agreement amended and restated the Revolving Credit and Security Agreement dated February 1, 2008, as amended, among the Parent Company, Borrower and CapitalSource (the "Original Credit Agreement"). The terms of the Amended and Restated Credit Agreement and the Original Credit Agreement are substantially similar except that the Amended and Restated Credit Agreement, among other things, (i) increases the maximum principal amount of the revolving credit facility from $3,000,000 to $5,000,000, (ii) provides that the term of the Amended and Restated Credit Agreement shall end on February 1, 2013, (iii) increases the amount of the collateral management fee and unused line fees paid by Borrower to CapitalSource, (iv) modifies the definitions of "Minimum Termination Fee" and "Permitted Indebtedness", (v) provides that the Borrower must maintain a minimum outstanding principal balance under the revolving facility of at least $2,000,000, (vi) increases the interest rate to LIBOR plus 4.25% (provided that LIBOR shall not be less than 2.0%) and (vii) revises certain covenants and representations and warranties. Borrower paid CapitalSource a commitment fee of $33,500 in connection with the execution of the Amended and Restated Credit Agreement (CapitalSource credited $25,000 of the amendment fee previously paid by the Borrower in connection with the March 26, 2010 amendment of the Original Credit Agreement towards the commitment fee).

Recent Accounting Pronouncements

The following accounting pronouncements were adopted by the Company during 2009:

On July 1, 2009, the Company adopted the provisions of ASU 2009-05, Fair Value Measurements and Disclosures (Topic 820)—Measuring Liabilities at Fair Value. It had no impact on the Company's financial condition or results of operations. Under this standard, companies determining the fair value of a liability may use the perspective of an investor that holds the related obligation as an asset. This topic addresses practice difficulties caused by the tension between fair-value measurements based on the price that would be paid to transfer a liability to a new obligor and contractual or legal requirements that prevent such transfers from taking place. No new fair-value measurements are required by the standard.

In May 2009, the Financial Accounting Standards Board issued Topic 855, Subsequent Events. This topic addresses accounting and disclosure requirements related to subsequent events. It requires management to evaluate subsequent events through the date the financial statements are either issued or available to be issued, depending on the company's expectation of whether it will widely distribute its financial statements to its shareholders and other financial statement users. Companies are required to disclose the date through which subsequent events have been evaluated – see Note B to our consolidated financial statements.

The Company has determined that all other recently issued accounting standards will not have a material impact on its consolidated financial statements, or do not apply to its operations.

Related Party Transactions

Consulting Agreements

During 2009 and 2008, Steven C. Jones, a director of the Company, earned $199,600 and $176,300, respectively, for various consulting work performed in connection with his duties as Acting Principal Financial Officer.

During the three months ended March 31, 2010 and 2009, Steven C. Jones, a director of the Company, earned approximately $67,000 and $56,000, respectively, for various consulting work performed in connection with his duties as Executive Vice President of Finance or Acting Principal Financial Officer.

During 2009 and 2008, George O'Leary, a director of the Company, earned $60,200 and $22,200, respectively, in cash for various consulting work performed for the Company. On January 18, 2006, Mr. O'Leary received 50,000 stock options for work performed for the benefit of the Company. The stock options had an exercise price of $0.26 per/share. On March, 15, 2007, Mr. O'Leary received 100,000 warrants for certain consulting services performed for the Company. The stock options had an exercise price of $0.26 per/share. These warrants had an exercise price of $1.49 per/share and a five year term. Half of the warrants were deemed vested on issuance and the other half vested ratably over a 24 month period. During 2009, Mr. O'Leary exercised the 100,000 warrants and the 50,000 stock options in a cash-less exercise per the terms of the agreements. The Company issued 85,030 and 42,215 shares to settle these exercises.

During the three months ended March 31, 2010 and 2009, George O'Leary, a director of the Company, earned approximately $0 and $9,500, respectively, for various consulting work performed for the Company.

Laboratory Information System

On March 11, 2005, we entered into an agreement with HCSS, LLC and eTelenext, Inc. to enable NeoGenomics to use 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, a member of our Board of Directors. George O'Leary, a member of our board of directors is Chief Financial Officer of HCSS, LLC.

On June 18, 2009, we entered into a Software Development, License and Support Agreement with HCSS, LLC and eTelenext, Inc. to upgrade the Company's laboratory information system to APvX. . The estimated costs for the development and migration phase are anticipated to be approximately $75,000 and are expected to be completed in April 2010. This agreement has an initial term of 5 years from the date of acceptance and calls for monthly fees of $8,000-$12,000 during the term. During the years ended December 31, 2009 and 2008, HCSS earned approximately $87,675 and approximately $99,900, respectively, for transaction fees related to completed tests.

During 2009 eTelenext and HCSS were merged to form PathCenter, Inc. Dr. Michael T. Dent and Mr. George O'Leary have beneficial ownership of 12.2% and 4.6%, respectively of PathCenter, Inc.

For the three months ended March 31, 2010 and 2009, Path Center Inc. (eTelenext/HCSS) earned approximately $69,000 and $38,000 respectively.

Gulf Pointe Capital Lease Agreement

See Note K to our consolidated financial statements for a description of our lease facility with Gulf Pointe Capital, an entity with which three members of our Board of Directors, Steven Jones, Peter Petersen and Marvin Jaffe, are affiliated.

DESCRIPTION OF BUSINESS

Overview

NeoGenomics operates a network of cancer-focused testing laboratories whose mission is to improve patient care through exceptional cancer genetic diagnostic, prognostic and predictive testing services. Our vision is to become America's premier cancer testing laboratory by delivering uncompromising quality, exceptional service and innovative products and solutions. The Company's laboratory network currently offers the following types of testing services:

a) cytogenetics testing, which analyzes human chromosomes;

b) Fluorescence In-Situ Hybridization ("FISH") testing, which analyzes abnormalities at the chromosomal and gene levels;

c) flow cytometry testing, which analyzes gene expression of specific markers inside cells and on cell surfaces;

d) immunohistochemistry testing, which analyzes the distribution of tumor antigens in specific cell and tissue types, and

e) molecular testing which involves analysis of DNA and RNA to diagnose and predict the clinical significance of various genetic sequence disorders.

All of these testing services are widely utilized in the diagnosis, prognosis, and prediction for response to therapy of various types of cancers.

Market Opportunity

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

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

Clinical laboratories are typically engaged in high volume, highly automated, lower complexity tests on easily procured specimens such as blood and urine. Clinical lab tests often involve testing of a less urgent nature, for example, cholesterol testing and testing associated with routine physical exams.

Anatomic pathology ("AP") testing involves evaluation of tissue, as in surgical pathology, or cells as in cytopathology. The most widely performed AP procedures include the preparation and interpretation of pap smears, skin biopsies, and tissue biopsies.

Genetic and molecular testing typically involves analyzing chromosomes, genes or DNA/RNA sequences for abnormalities. New tests are being developed at an accelerated pace, thus this market niche continues to expand rapidly. Genetic and molecular testing requires highly specialized equipment and credentialed individuals (typically MD or PhD level) to certify results and typically yields the highest reimbursement levels of the three market segments.

The market for cancer testing is growing rapidly. Key factors influencing this growth are: (i) cancer is primarily a disease of the elderly and now that the baby boomer generation has started to turn sixty, the U.S. is experiencing a significant increase in the number of senior citizens, (ii) the American Cancer Society estimates that one in four senior citizens will develop some form of cancer during the rest of their lifetime, and (iii) every year more and more genes are discovered to have a specific link to cancer, which then enables a genetic or molecular test to be developed. We estimate that the Company addresses a $5-6 billion total United States market opportunity, about half of which is derived from genetic and molecular testing with the other half derived from more traditional anatomic pathology testing services that are complementary to and often ordered with the genetic testing services we offer.

Our Focus

NeoGenomics' primary focus is to provide high complexity laboratory testing for community-based pathology, oncology, dermatology and urology markets in the United States and the Caribbean. We focus on community-based practitioners for two reasons: First, academic pathologists and associated clinicians tend to have their testing needs met within the confines of their university affiliation. Secondly, most of the cancer care in the United States is administered by community based practitioners due to ease of local access. We currently provide our services to pathologists and oncologists that perform bone marrow and/or peripheral blood sampling for the diagnosis of blood and lymphoid tumors (leukemias and lymphomas) and archival tissue referred for analysis of solid tumors such as breast cancer. We also serve community-based urologists by providing a FISH-based genetic test for the diagnosis of bladder cancer and early detection of recurrent disease.

The high complexity cancer testing services we offer to community-based pathologists are designed to be a natural extension of and complementary to the services that our pathologist clients perform within their own practices. Because fee-for-service pathologists derive a significant portion of their annual revenue from the interpretation of cancer biopsy specimens, they represent an important market segment to us. We believe our relationship as a non-competitive partner to the community-based pathologist empowers these pathologists to expand their testing breadth and provide a menu of services that matches or exceeds the level of service found in academic centers of excellence around the country.

We also believe that we can provide a competitive choice to those larger oncology practices that prefer to have a direct relationship with a laboratory for cancer genetic testing services. Our regionalized approach allows us strong interactions with clients and our innovative Genetic Pathology Solutions ("GPS") report summarizes all relevant case data on one summary report.

Competitive Strengths

Turnaround Times

At NeoGenomics, we strive to provide industry leading turnaround times to our clients nationwide and to provide information so that physicians can provide their patients with the correct treatment as soon as possible.

We believe our average 4-5 day turn-around time for our cytogenetics testing services and our average 3-4 day turn-around time for FISH testing services continue to be industry-leading benchmarks for national laboratories. The consistent timeliness of results is a competitive strength in cytogenetics and FISH testing and a driver of additional testing requests by our referring physicians. Quick turn-around times for cytogenetics and FISH tests allow for the performance of other tests to augment or confirm results and improve patient care. Without rapid turnaround times, there is an increased chance that the test results will not be returned within an acceptable diagnostic window when other adjunctive diagnostic test results are required. We believe our turn-around times result in our referring physicians requesting more of our testing services and give us a significant competitive advantage in marketing our services against those of other competing laboratories.

National Direct Sales Force

NeoGenomics has assembled a strong direct sales force. Our sales representatives ("Territory Business Managers") are organized into four regions (Northeast, Southeast, Central and West). These sales representatives are trained extensively in cancer genetic testing and consultative selling skills. As of April 27, 2010, we had 23 Territory Business Managers and four Regional Managers.

Strategic Supply Agreement with Abbott Molecular

In July 2009, we entered into a Strategic Supply Agreement with Abbott Molecular, Inc, a wholly-owned subsidiary of Abbott Laboratories. Under the terms of this agreement, NeoGenomics has the rights to develop and exclusively launch three laboratory developed tests (LDTs) based on intellectual property developed and/or licensed by Abbott. We launched the first of these tests in February 2010, a FISH test for the diagnosis of melanoma, and expect to launch the second test in early 2011 and the third in 2012. In conjunction with the Strategic Supply Agreement, Abbott Laboratories purchased a 9.6% stake in NeoGenomics.

New FISH Test for Melanoma

In February 2010, we launched the first of the three tests developed pursuant to the Strategic Supply Agreement with Abbott under the trade name MelanoSITE™. MelanoSITE™ is a four probe FISH test that can be used as a diagnostic aid to traditional histopathologic evaluation in diagnosing melanoma. In conjunction with histopathology, the MelanoSITE™ test can help improve classification of melanocytic neoplasms with conflicting morphologic criteria and help insure proper follow-up. Differential diagnosis of moderate to severely atypical nevi versus true melanoma is one of the most challenging areas in dermatopathology. While most melanomas can be readily distinguished from nevi on histopathologic examination, we estimate there are about 5% of cases that are ambiguous and show conflicting morphologic criteria. Diagnostic ambiguity has significant adverse consequences for patients and the healthcare system at large. Failure to recognize melanoma is potentially fatal, but labeling a benign lesion as malignant can lead to unwarranted wide re-excisions, sentinel lymph node biopsies, adjuvant toxic therapeutic interventions and the emotional strain of facing a diagnosis of cancer. Considering the large number of biopsies done in the U.S. to either confirm or rule out melanoma, diagnostic uncertainty of this scale represents a significant challenge to the U.S. healthcare system. We believe the MelanoSITE™ test will help address this diagnostic uncertainty and help to reduce the medical costs associated with melanoma by providing a more accurate diagnosis.

The performance characteristics of the MelanoSITE™ test were established in a multicenter validation study involving over 500 cases, which resulted in a sensitivity (a measure of true positives and false negatives) of 77% and a specificity (a measure of true negatives and false positives) of 97%. Importantly, based on our study, the MelanoSITE™ test has a negative predictive value (NPV) of over 98%. This means that dermatopathologists and dermatologists can be confident that a patient with a negative test result has a very low likelihood of having melanoma. Therefore, the clinician may not need to perform a wide re-excision of the lesion, potentially scarring a patient for life, and may not need to perform a sentinel lymph node biopsy which can potentially lead to further complications such as lymphedema. We expect the marketing and selling of the MelanoSITE™ test to be a major focus of the Company during 2010.

Client Care

NeoGenomics Customer Care Specialists ("CCS") are organized by region into territories that service not only our external clients, but also work very closely with and support our sales team. A client receives personalized assistance when dealing with their dedicated CCS because each CCS understands their clients' specific needs. CCS's handle everything from arranging specimen pickup to delivering the results to fulfill NeoGenomics' objective of delivering exceptional services to our clients.

Geographic Locations

In 2009, we continued an aggressive campaign to regionalize our laboratory operations around the country to be closer to our clients. Many high complexity laboratories within the cancer testing niche have frequently operated a core facility on one or both coasts to service the needs of their customers around the country. We believe that our clients and prospects desire to do business with a laboratory with national breadth and a local presence. NeoGenomics' has four facilities. The Chatsworth California location is a small office laboratory for our pathologists. and we have three main laboratory locations in Fort Myers, Florida; Irvine California; and Nashville Tennessee and all facilities have the appropriate state licenses and Clinical Laboratory Improvement Act, as amended ("CLIA"), and College of American Pathologists ("CAP") accreditations and are currently receiving specimens. As situations dictate and opportunities arise, we will continue to develop and open new laboratories, linked together by our optimized Laboratory Information System ("LIS"), to better meet the regionalized needs of our clients.

Laboratory Information System

NeoGenomics has what we believe is a state of the art LIS that interconnects our locations and provides flexible reporting options to clients. This system allows us to deliver uniform test results throughout our network, regardless of where the lab that performs any specific test is located. This allows us to move specimens between locations to better balance our workload. Our LIS also allows us to offer highly specialized services to certain sub-segments of our client base. For instance, our tech-only NeoFISHTM and NeoFLOWTM applications allow our community-based pathologist clients to tailor individual reports to their own customizable report templates. This feature has been well-received by our tech-only clients.

Scientific Pipeline

The field of cancer genetics is rapidly evolving, and we are committed to developing and offering new tests to meet the needs of the market place based on the latest scientific discoveries. During 2009, in addition to the validation work performed for our exclusive Melanoma FISH test, the Company made significant strides in developing the capability to perform molecular diagnostic testing in-house. We believe that by adding additional types of tests to our product offering, we will be able to increase our testing volumes through our existing client base as well as more easily attract new clients via the ability to package our testing services more appropriately to the needs of the market. We expect to launch at least five new molecular tests in fiscal year 2010.

Competition

We operate in segments of the medical testing laboratory industry that are highly competitive. Competitive factors in the genetic and molecular testing business generally include the reputation of the laboratory, range of services offered, pricing, convenience of sample collection and pick-up, quality of analysis and reporting, medical staff, timeliness of delivery of completed reports (i.e. turnaround times) and post-reporting follow-up for clients.

Our competitors in the United States are numerous and include major medical testing laboratories. Many of these competitors have greater financial resources and production capabilities. These companies may succeed in developing service offerings that are more effective than any that we have or may develop, and may also prove to be more successful than we are in marketing such services. In addition, technological advances or different approaches developed by one or more of our competitors may render our products obsolete, less effective or uneconomical.

We estimate that the United States market for genetic and molecular testing is divided among approximately 300 laboratories. Approximately 80% of these laboratories are attached to academic institutions and primarily provide clinical services to their affiliate university hospitals. We believe that the remaining 20% is quite fragmented and that less than 20 laboratories market their services nationally. We estimate that the top 20 laboratories account for approximately 50% of market revenues for genetic and molecular testing.

We intend to continue to gain market share by offering industry-leading turnaround times, a broad service menu, high-quality test reports, bringing new tests to market, and enhanced post-test consultation services through our direct sales force. In addition, we have a fully integrated and interactive internet-enabled LIS that enables us to report real time results to clients in a secure environment.

Global Products

We offer a full set of global services to meet the needs of our clients to improve patient care. In our global service offerings, our lab performs the technical component of tests, and our M.D.s and Ph.D.'s interpret the test results for our clients (known as the professional component). This product line provides a comprehensive testing service to those clients who are not credentialed and trained in interpreting genetic and molecular tests. Global products also allow NeoGenomics to derive a higher level of reimbursement than would otherwise be possible with a tech-only test. This product also services the needs of physicians who are looking for ways to save their time.

We increased our professional level staffing for global requisitions requiring interpretation in 2008 and 2009. Importantly, in April 2008 we recruited two well-known hematopathologists to NeoGenomics at our Irvine, California laboratory location, enabling this west coast facility to become the mirror image of our main facility in Fort Myers, Florida. We currently employ four full-time MDs as our medical directors and pathologists, two PhDs as our scientific directors and cytogeneticists, and one part-time MD acting as a consultant and backup pathologist for case sign out purposes. We have plans to hire several more pathologists in 2010 as our product mix continues to expand beyond tech-only services and more sales emphasis is focused on our ability to issue consolidated reporting with case interpretation under our Genetic Pathology Solutions ("GPS") product line.

Tech-Only Products

In 2006, NeoGenomics launched what we believe was the first technical component only ("tech-only") FISH product offering in the United States. Tech-only products allow our community-based pathology clients that are properly trained and credentialed to provide services to clinicians based on established and trusted relationships. These pathologist clients perform the professional interpretation of results themselves and bill for such work under the physician fee schedule. For tech-only FISH, NeoGenomics performs the technical component of the test (specimen set-up, staining, sorting and categorization of cells, chromosomes, genes or DNA, etc) and the pathology client performs the professional component. This allows NeoGenomics to partner with its pathology clients and provides for close collaboration in meeting market needs. Prior to the advent of tech-only products, pathologists who did not have a genetic lab would have had to send all of the work out to a reference lab. Utilizing NeoFISHTM, pathologist clients are empowered to extend the outreach efforts of their practices and exert a high level of involvement in the delivery of high quality patient care.

NeoFLOWTM tech-only flow cytometry was launched as a companion service to NeoFISHTM in late 2007. We believe the NeoFLOWTM service offering will continue to be a key growth driver for the Company in 2010. Moreover, the combination of NeoFLOWTM and NeoFISHTM strengthens and differentiates NeoGenomics and allows us to compete more favorably against larger, more entrenched competitors in our testing niche.

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Sales and Marketing

We continue to grow our testing volumes and revenue due to our expanding field sales footprint. As of April 27, 2010, NeoGenomics' sales and marketing team totaled 34 individuals, including 23 Territory Business Managers (sales representatives) and four Regional Managers and six marketing and management professionals. During 2009, we made significant investments in sales and marketing personnel and we expect to realize the positive effects of those investments in 2010.

As a result of our expanding sales force, we experienced 47% year-over-year revenue growth to $29.5 million in 2009 from $20.0 million in 2008. Our average revenue/requisition increased 15% to $931 in 2009 from $808 in 2008 due to a higher mix on global products with interpretation and an increase of higher revenue flow cytometry testing as a percentage of our total revenue.

	FY 2009	FY 2008	% Increase
Client Requisitions Received (Cases)	31,638	24,780	28%
Number of Tests Performed	45,675	32,539	40%
Average Number of Tests/Requisition	1.44	1.31	10%
Total Testing Revenue	$ 29,469,000	$ 20,015,000	47%
Average Revenue/Requisition	$ 931	$ 808	15%
Average Revenue/Test	$ 645	$ 615	5%

Within the subspecialty field of hematopathology, our scientific expertise and product offering allows us to be able to perform multiple tests on each specimen received. Many physicians believe that a comprehensive approach to the diagnosis and prognosis of blood and lymph node disease to be the standard of care throughout the country. As the average number of tests performed per requisition increases, we believe this will help to generate significant synergies and efficiencies in our operations and our sales and marketing activities.

Seasonality

The majority of our testing volume is dependent on patients being treated by hematology/oncology professionals and other healthcare providers. The volume of our testing services generally declines during the summer vacation season, year-end holiday periods and other major holidays, particularly when those holidays fall during the middle of the week. In addition, the volume of our testing tends to decline due to adverse weather conditions, such as excessively hot or cold spells, heavy snow, hurricanes or tornados in certain regions, consequently reducing revenues and cash flows in any affected period. Therefore, comparison of the results of successive periods may not accurately reflect trends for future periods.

Distribution Methods

The Company currently performs the vast majority of its testing services at each of its three main clinical laboratory locations: Fort Myers, Florida, Nashville, Tennessee and Irvine, California, and then produces a report for the requesting physician. We also have a facility for our California medical staff in Chatsworth, California. Services performed in-house include cytogenetics, FISH, flow cytometry, morphology, immunohistochemistry, and some molecular testing. The Company currently outsources approximately half of its molecular testing to third parties, but expects to validate and perform the majority of this testing in-house during 2010 to better meet client demand and quality requirements.

Suppliers

The Company orders its laboratory and research supplies from large national laboratory supply companies such as Abbott Laboratories, Fisher Scientific, Invitrogen, Cardinal Health, Ventana and Beckman Coulter. Other than as discussed below, we do not believe any disruption from any one of these suppliers would have a material effect on our business. The Company orders the majority of its FISH probes from Abbott Laboratories and as a result of their dominance of that marketplace and the absence of any competitive alternatives, if there was a disruption in the supply of these probes, and we did not have inventory available, it could have a material effect on our business. This risk cannot be completely offset due to the fact that Abbott Laboratories has patent protection which limits other vendors from supplying these probes.

Dependence on Major Clients

We currently market our services to pathologists, oncologists, urologists, hospitals and other clinical laboratories. During 2009, we performed 45,675 individual tests. Ongoing sales efforts have decreased dependence on any given source of revenue. Notwithstanding this fact, one key client accounts for a disproportionately large case volume and revenue total. For the years ended December 31, 2009 and 2008, one client with multiple locations accounted for 10% and 22% respectively, of total revenue. As a result of this one customer bringing certain tests in-house, this client represented less than 5% of our fourth quarter 2009 revenue. All others were less than 5% of total revenue individually.

Payor Mix

In 2009, approximately 49% of our revenue was derived from Medicare claims, 26% from commercial insurance companies, 24% from clients such as hospitals and other reference laboratories, and 1% from all others including patients. As of December 31, 2009, Medicare and one commercial insurance provider accounted for 28% and 9% of the Company’s total accounts receivable balance, respectively. There is no other significant concentration in our payor mix.

Trademarks

The “NeoGenomics” name and logo has been trademarked with the United States Patent and Trademark Office. We have also trademarked the brand names MelanoSITE and DermFISH related to our melanoma FISH test.

Number of Employees

As of December 31, 2009, we had 166 full-time equivalent employees. In addition, eight other individuals, including three pathologists and a Ph.D. cytogenetics director, serve as consultants to the Company on a regular basis. On December 31, 2008, we had 114 full-time equivalent employees and six consultants serving on a regular basis. Our employees are not represented by any union and we believe our employee relations are good.

On March 31, 2010 we had 176 full-time equivalent employees.

Government Regulation

The laboratory business is subject to extensive governmental regulation at the federal, state and local levels. The laboratories are required to be licensed by the states, certified by the federal government to participate in the Medicare and Medicaid programs, and are subject to extensive requirements as a condition of participation in various governmental health benefits programs. The failure to comply with any of the applicable federal and state laws, regulations, and reimbursement guidelines could have a material adverse effect on the Company's business. The applicable laws and regulations, and the interpretations of them, change frequently and there can be no assurance that the Company will not be subject to audit, inquiry, or investigation with respect to some aspect of its operations. Some of the federal and state laws and regulations are described below under "Clinical Laboratory Operations," "Anti-Fraud and Abuse Laws," "The False Claims Act," "Confidentiality of Health Information," and "Food and Drug Administration".

Clinical Laboratory Operations

Licensure and Accreditation

The Company operates clinical laboratories in Fort Myers, Florida, Nashville, Tennessee, Irvine, California and Chatsworth, California. The Chatsworth California location is a small office laboratory for our pathologists. The laboratories are licensed as required by the states in which they are located. In addition, the laboratory in Tennessee is licensed by the State of New York as it accepts clinical specimens obtained in New York. All of the NeoGenomics laboratories are certified in accordance with the Clinical Laboratories Improvement Act, as amended ("CLIA"). Under CLIA, the U.S. Department of Health and Human Services ("HHS") establishes quality standards for each category of testing performed by the laboratory. The categories of testing include waived, moderate complexity, and high complexity. NeoGenomics' laboratories are categorized as high complexity. The NeoGenomics' laboratories are also accredited by the College of American Pathologists ("CAP") and actively participate in CAP's proficiency testing programs for all tests offered by the Company. Proficiency testing programs require the participating laboratories to test specimens that they receive from the testing entity and return the results. The testing entity, conducting an approved program, analyzes the results returned and provides to the Company a quality control report assessing the results. An important component of a quality assurance program is to establish whether the laboratory's test results are accurate and valid.

The federal and state certification and licensure programs establish standards for the operation of clinical laboratories, including, but not limited to, qualifications of personnel and quality control. Compliance with such standards is verified by periodic inspections by inspectors employed by federal and state regulatory agencies and accrediting organizations. The Company's Quality Assurance team, which is comprised of representatives of all departments of the Company, also conducts routine internal surveys and requires corrective actions in response to the findings.

Quality of Care

Our mission is to improve patient care through quality cancer genetic diagnostic services. By delivering exceptional service and innovative solutions, we aspire to become America's premier cancer testing laboratory. The quality of care provided to clients and their patients is of paramount importance to us. We maintain strong quality control processes, including standard operating procedures, controls, performance measurement and reporting mechanisms. Our employees are committed to providing accurate, reliable, and consistent services at all times. Any concerns regarding the quality of testing or services provided by the Company are immediately communicated to Company management and, if necessary, the Compliance Department or Human Resources Department.

Compliance Program

The health care industry is highly regulated and scrutinized with respect to fraud, abusive billing practices, and improper financial relationships between health care companies and their referral sources. The Office of the Inspector General of HHS (the "OIG") has published compliance guidance, including the Compliance Program Guidance for Clinical Laboratories in August of 1998, and advisory opinions. The Company has implemented a Compliance Program that is overseen by the senior management of the Company. Its objective is to ensure compliance with the myriad federal and state laws, regulations and governmental guidance applicable to our business. Our program consists of training/education of employees and monitoring and auditing Company practices. The Board of Directors has formed a Compliance Committee which meets regularly to discuss all compliance-related issues that may affect the Company. The Company continuously reviews its policies and procedures as new regulations and interpretations come to light to comply with applicable regulations.

Hotline

As part of its Compliance Program, the Company provides a hotline for employees who wish to anonymously or confidentially report suspected violations of our codes of conduct, policies/procedures, or laws and regulations. Employees are strongly encouraged to report any suspected violation if they do not feel the problem can be appropriately addressed through the normal chain of command. The hotline does not replace other resources available to Employees, including supervisors, managers and human resources staff, but is an alternate channel available 24 hours a day, 365 days a year. The hotline forwards all reports to the Compliance Officer who is responsible for investigating, reporting to the Compliance Committee, and documenting the disposition of each report. The hotline forwards any calls pertaining to the financial statements or financial issues to the Chair of the Audit Committee. The Company does not allow any retaliation against an employee who reports a compliance related issue.

Anti-Fraud and Abuse Laws

The federal laws governing Medicare, Medicaid, and other federal health benefits, as well as other state and federal laws, regulate certain aspects of the relationships between health care providers, including clinical laboratories, and their referral sources, including physicians, hospitals, other laboratories, and other entities. The federal anti-kickback laws, referred to as the Medicare and Medicaid Anti-Fraud and Abuse Amendments to the Social Security Act (the "Anti-Kickback Statute"), prohibit any knowing and willful offer, payment, solicitation or receipt of any form of remuneration, either directly or indirectly, in return for, or to induce: (i) the referral of an individual for a service for which payment may be made by Medicare and Medicaid or other federal health benefit programs; or (ii) the purchasing, leasing, ordering or arranging for, or recommending the purchase, lease or order of, any service or item for which payment may be made by Medicare, Medicaid or other federal health benefit programs. Violations of federal anti-kickback laws and regulations are punishable as a felony, by civil money penalties, and exclusion from participation in Medicare, Medicaid and other federal health benefit programs. Most states have similar laws with both criminal and civil penalties.

Because of the broad proscriptions of the Anti-Kickback Statute, subsequent federal law required the HHS to publish regulations to guide the health care community in structuring relationships that would not violate the law. The OIG published regulations outlining certain categories of relationships between health care providers and persons or entities that may have a referral relationship that would be deemed not to violate the Anti-Kickback Statute. These regulations are known as the Safe Harbor Regulations (the "Safe Harbor Regulations") because persons who enter into transactions that comply with all of the criteria for an applicable safe harbor will not be subject to prosecution under the Anti-Kickback Statute. The Safe Harbor Regulations are narrowly drafted to avoid inadvertently immunizing prohibited conduct. A relationship or transaction that does not meet all of the criteria of an applicable Safe Harbor Regulation is not deemed to be illegal. Rather it may be subject to additional scrutiny. The Company endeavors to comply with the Safe Harbor Regulations, but there can be no assurance that the Company would not be subject to investigation and, if investigated, that relationships could be found not to comply with the Safe Harbor Regulations.

Medicare Payment Guidelines

The Company has various billing arrangements with its clients and with third party payors, including the Medicare program. The Company may perform the entire test and render a professional interpretation in which case the Company would bill globally, for both the technical and professional components, either directly to the payor or to the client. Alternatively, the Company may perform the technical component of the test only and either bill the payor directly or bill the client. Client billing arrangements are priced competitively at fair market value. These client billing arrangements may implicate the prohibition of the Medicare program against charging the Medicare or Medicaid programs fees substantially in excess of the Company's usual and customary charges. These billing arrangements may also implicate the federal Stark Law and the federal and state anti-kickback statutes.

Federal law authorizes the Secretary of HHS to suspend or exclude providers from participation in the Medicare and Medicaid programs if they charge Medicare or state Medicaid programs fees "substantially in excess" of their "usual charges." The OIG has stated in commentary to various final and proposed regulations its position that this statute has limited applicability to the current Medicare reimbursement system which either mandates prospective payment or provides for services to be reimbursed based on a fee schedule. The OIG indicated, in the Federal Register of September 2, 1998, that it would expect the statutory authority to exclude providers based on a determination that their fees were substantially in excess of their usual charges would "have declining relevance within the Medicare reimbursement system." However, in the Federal Register of September 15, 2003, the OIG requested, in a Notice of Proposed Rule-Making, comments as to whether any services reimbursed under the physician fee schedule should be subject to these regulations. The OIG further stated that "[w]e note that ancillary services, such as laboratory tests and drugs, would remain subject to these regulations, even when furnished by physicians" [F.R., Vol. 68, No. 178, September 15, 2003 at 53940]

In several Advisory Opinions, the OIG has provided additional guidance regarding the possible application of this law, as well as the applicability of the anti-kickback laws to pricing arrangements. The OIG concluded in an Advisory Opinion issued in 1999 [OIG Advisory Opinion No. 99-13] that an arrangement under which a laboratory offered substantial discounts to physicians for laboratory tests billed directly to the physicians could potentially trigger the "substantially in excess" provision and might violate the anti-kickback law, because the discounts could be viewed as being provided to the physician in exchange for the physician's referral to the laboratory of non-discounted Medicare business, unless the discounts could otherwise be justified.

The Centers for Medicare and Medicaid Services promulgated, in 2008, a revision to the regulation that prohibits the mark up of purchased diagnostic services [42 C.F.R. §414.50] (the "Anti-Markup Rule"). The Anti-Markup Rule prohibits a physician or other supplier from billing for the technical or professional component of a diagnostic test that was ordered by the physician or supplier and was performed by a physician who does not share a practice with the billing physician or supplier an amount greater than the lesser of: (i) the performing supplier's net charge to the billing physician; (ii) the billing physician's actual charge; or (iii) the fee schedule amount for the test that would be allowed if the performing supplier billed directly. There has been considerable commentary and the regulation has been amended to attempt to clarify the regulation.

In light of the various federal regulations and guidance from the OIG, the Company endeavors to price its products competitively while endeavoring to meet applicable statutes and regulations.

Physician Self Referral Laws

The federal law referred to as the "Stark Law", named after Rep. Fortney "Pete" Stark, prohibits physicians who have a financial relationship with an entity from referring Medicare and Medicaid patients to that entity for the provision of designated health services unless the transaction meets an exception to the law. The Company is subject to the Stark law in that laboratory services are classified as a designated health service. The prohibited financial relationships include investment and compensation arrangements.

Some states in which the Company is engaged have enacted similar physician self-referral laws. For example, the Florida Patient Self-Referral Act of 1992, as amended, (the "Act") is similar to the Stark law, but is narrower in some respects and broader in others. Clinical laboratory services are similarly classified as a designated health service in the Act. But, the Act applies to investment interests, and, unlike the Stark Law, does not address compensation arrangements. The penalties for a violation of the Act include forfeiture of all payments received, civil money penalties, and disciplinary action by the applicable licensing board.

The Stark Law is a per se statute in that intent to violate the statute, unlike the Anti-Kickback Statute, is immaterial. A violation of the Stark Law renders any reimbursements improper and requires the provider to forfeit any funds received in violation of the Stark Law, and exposes the parties to civil and criminal penalties. The Company endeavors to structure its financial relationships in compliance with the Stark Law and with similar state physician self-referral laws.

The False Claims Act

The Federal False Claims Act prohibits any person or entity from knowingly presenting, or causing to be presented, to the U.S. government, or to a Medicare program contractor, a false or fraudulent claim for payment, or knowingly making or using a false record or statement to have a false claim paid by the government, or conspiring to defraud the U.S. government, or knowingly making or using a false statement to conceal and obligation to pay the government. A violation of the Federal False Claims Act is punishable by a civil penalty of $5,500 to $11,000 plus three times the amount of damages. Private parties may bring an action on behalf of the U.S. Government by filing a qui tam case. The private party, called a relator, is entitled to a share of the proceeds from any recovery or settlement. As most qui tam cases are filed by current or former employees, an effective compliance program plays a crucial role in reducing the Company's exposure to liability. It is also a criminal offense, under Title 18 U.S. Code, Section 287, for a person or entity to make a claim against the United States or any department or agency, knowing the claim to be false, fictitious or fraudulent. The penalty is imprisonment of not more than five years. The Federal False Claims Act has been an effective enforcement tool for the federal government. Many states have enacted similar false claims acts as well.

The Company seeks to structure its arrangements with physicians and other clients to be in compliance with the Anti-Kickback Statute, Stark Law, state laws, and the Federal False Claims Act and to stay abreast of current developments and changes in the law and regulations. However, these laws and regulations are complex and subject to interpretation. Consequently, we are unable to ascertain with certainty that any of our transactions will not be subject to scrutiny and, if scrutinized, will not result in sanctions or penalties. The Company has taken and will continue to take actions to endeavor to ensure compliance with the myriad federal and state laws that govern our business.

Confidentiality and Security of Personal Health Information

The Health Insurance Portability and Accountability Act of 1996, as amended ("HIPAA") contains provisions that protect individually identifiable health information from unauthorized use or disclosure by covered entities and their business associates. The Office of Civil Rights of HHS, the agency responsible for enforcing HIPAA, has published regulations to address the privacy (the “Privacy Rule”) and security (the “Security Rule”) of protected health information (“PHI”). The Company is a covered entity and has adopted policies and procedures to comply with the Privacy Rule and the Security Rule. The health care facilities and providers that refer specimens to the Company are also bound by HIPAA.

HIPAA also required that all providers who transmit claims for health care goods or services electronically utilize standard transaction and data sets and to standardize national provider identification codes. The Company has taken necessary steps to comply with HIPAA regulations, utilizes standard transaction data sets, and has obtained and implemented national provider identifiers, or NPIs, as the standard unique health identifier in filing and processing health care claims and other transactions.

The American Recovery and Reinvestment Act ("ARRA") recently enacted the HITECH Act which extends the scope of HIPAA to permit enforcement against business associates for a violation, establishes new requirements to notify the Office of Civil Rights of HHS of a breach of HIPAA, and allows the Attorneys General of the states to bring actions to enforce violations of HIPAA. Rules implementing various aspects of HIPAA are continuing to be developed.

In addition to the HIPAA Privacy Rule and Security Rule described above, the Company is subject to state laws regarding the handling and disclosure of patient records and patient health information. These laws vary widely. Penalties for violation include sanctions against a laboratory's licensure as well as civil or criminal penalties. Additionally, private individuals may have a right of action against the Company for a violation of a state's privacy laws. We believe we are in material compliance with current state laws regarding the confidentiality of health information and will continue to monitor and comply with new or changing state laws.

The Fair and Accurate Credit Transactions Act of 2003, enacted on Dec. 4, 2003, directed the Federal Trade Commission to implement regulations to protect consumers against identity theft. The Federal Trade Commission issued what are referred to as the "Red Flag Rules", but the effective date for enforcement has been delayed several times. The Red Flag Rules are now subject to enforcement as of June 1, 2010. Health care providers who act as a "creditor" to any of its patients with respect to a "covered account" are required to implement an identity theft protection program to safeguard patient information. A creditor includes any entity that regularly extends, renews or continues credit or which defers payment for goods or services. Since the Company routinely extends credit by billing for its services after such services are provided, the Company meets the definition of a "creditor" under the Red Flag Rules. Accordingly, the Company has developed a written program designed to identify and detect the relevant warning signs – or "red flags" – of identity theft and establish appropriate responses to prevent and mitigate identity theft in order to comply with the Red Flag Rules. We are also developing a plan to update the program, and the program will be managed by senior management staff under the policy direction of our Board of Directors. The Company intends to take such steps as necessary to determine the extent to which it may be covered by the Red Flag Rule and take such steps as necessary to comply.

History

On October 29, 1998, the Parent Company was incorporated in the State of Nevada as American Communications Enterprises, Inc. The Parent Company changed its name to Neogenomics, Inc. on December 14, 2001.

Properties

We operate a regional network of laboratories. All our facilities are leased and we believe that they are sufficient to meet our needs for the foreseeable future and that, if needed, additional space will be available at a reasonable cost. The following table summarizes our facilities by location:

Location	Purpose	Square footage
Fort Myers, Florida	Corporate headquarters and laboratory	25,700
Irvine, California	Laboratory	14,800
Chatsworth, California	Pathology Laboratory	1,200
Nashville, Tennessee	Laboratory	5,400

Legal Proceedings

On November 9, 2009, the Company was notified by the Civil Division of the U.S. Department of Justice ("DOJ") that a "Qui Tam" Complaint ("Complaint") had been filed under seal by a private individual against a number of health care companies, including the Company. The Complaint is an action to recover damages and civil penalties arising from alleged false or fraudulent claims and statements submitted or caused to be submitted by the defendants to Medicare. As of the date of the registration statement of which this prospectus is a part, the DOJ had not made any decision whether to join the action. The Company believes the allegations in the Complaint are without merit and intends to vigorously defend itself if required to do so.

MANAGEMENT

Officers And Directors

The following table sets forth the names, ages, and titles of each of our directors and executive officers and employees expected to make a significant contribution to us as of April 27, 2010.

Name	Age	Position
Board of Directors:		
Douglas VanOort	54	Chairman of the Board of Director's and Chief Executive Officer,
Robert P. Gasparini	55	President and Chief Science Officer, Board Member
Steven C. Jones	47	Executive Vice President of Finance, Board Member
Michael T. Dent	45	Board Member
George G. O'Leary	47	Board Member
Peter M. Peterson	53	Board Member
Marvin E. Jaffe	73	Board Member
William J. Robison	73	Board Member
Other Executives:		
George Cardoza	48	Chief Financial Officer
Jack G. Spitz	54	Vice President of Laboratory Operations
Grant Carlson	42	Vice President of Sales and Marketing
Matthew William Moore	36	Vice President of Research and Development
Jerome J. Dvonch	41	Director of Finance and Principal Accounting Officer

Family Relationships

There are no family relationships between or among the members of the Board of Directors or other executives.

Legal Proceedings

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 our 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.

Elections

Members of our Board of Directors are elected at the annual meeting of stockholders and hold office until their successors are elected. Our 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.

The Company, Michael Dent, Aspen, John Elliot, Steven Jones and Larry Kuhnert are parties to the Amended and Restated Shareholders' Agreement dated March 21, 2005, as amended, that, among other provisions, gives Aspen, our largest stockholder, the right to elect three out of the eight directors authorized for our Board of Directors, and to nominate one mutually acceptable independent director. In addition, Michael Dent and the executive management of the Company has the right to elect one director for our Board of Directors, until the earlier of (i) Dr. Dent's resignation as an officer or director of the Company or (ii) the sale by Dr. Dent of 50% or more of the number of shares of our common stock that he held on March 21, 2005.

Douglas M. VanOort, – Chairman of the Board of Directors and Chief Executive Officer

Mr. VanOort has served as the Chairman of the Board of Directors and Chief Executive Officer of NeoGenomics since October 28, 2009. Prior to that he served as Chairman of the Board of Directors, Executive Chairman and Interim Chief Executive Officer from March 2009 to October 2009. He has been an Operating Partner with Summer Street Capital Partners since 2004 and a Founding Partner of Conundrum Capital Partners since 2000. From 1995 to 1999, he served as the Senior Vice President Operations for Quest Diagnostics, Incorporated. During this period Quest Diagnostics grew to approximately $1.5 billion in annual revenue through both organic growth and mergers and acquisitions. From 1982 to 1995, Mr. VanOort served in various positions at Corning Incorporated and ultimately held the position of Executive Vice President and CFO of Corning Life Sciences, Inc. In 1995, Corning spun off Corning Life Sciences, Inc. into two companies, Quest Diagnostics and Covance, Inc. Mr. VanOort serves as a member of the Board of Directors of Palladian Health, International Climbing Machines, Inc. and Bio HiTech, Inc. In addition, since 2000, Mr. VanOort has served as the Chairman, Co-Founder and Co-Owner of Vision Ace Hardware, LLC, a retail hardware chain. Mr. VanOort is a graduate of Bentley College.

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

Mr. Gasparini has served as the President and Chief Science Officer of NeoGenomics since January 2005. Prior to assuming the role of President and Chief Science Officer, Mr. Gasparini was a consultant to the Company beginning in 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 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 Massachusetts 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 – Executive Vice President Finance, Board Member

Mr. Jones has served as a director since October 2003 and as Executive Vice President of Finance since November 30, 2009. Mr. Jones served as Chief Financial Officer for the Company prior to November 30, 2009. 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 degree from the Wharton School of the University of Pennsylvania in 1991. He is also Chairman of the Board of T3 Communications, Inc. and serves on the Board of Directors of Disc Motion Technologies, Inc.

Michael T. Dent M.D. – Board Member

Dr. Dent is our founder and a director. 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, South Carolina in 1992 and a B.S. degree from Davidson College in Davidson, North Carolina 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.

George G. O'Leary – Board Member

Mr. O'Leary is a director of NeoGenomics and is currently running his own consulting firm, SKS Consulting of South Florida Corp. where he consults for NeoGenomics as well as several other companies. Mr. O'Leary is also a board member of NeoMedia Technologies, Inc, and is Chairman of the Board of Directors of Isonics Corporation. He is also acting CFO for Isonics Corporation. Prior to that he was 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 Vice President 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. 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. Prior 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 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.

Marvin E. Jaffe, MD – Board Member

Dr. Jaffe, who is retired, spent his entire working career in the pharmaceutical industry and has been responsible for the pre-clinical and clinical development of new drugs and biologics in nearly every therapeutic area. He began his career at Merck & Co and spent 18 years with Merck, rising to the position of Senior Vice-President of Medical Affairs. After leaving Merck, Dr. Jaffe became the founding President of the R.W. Johnson Pharmaceutical Research Institute (PRI), a Johnson & Johnson Company. PRI was established for the purpose of providing globally integrated research and development support to several companies within the J&J pharmaceutical sector. Dr. Jaffe retired from Johnson & Johnson in 1994 and currently serves as a consultant and board member to the biopharmaceutical and biotechnology industries. He was on the Board of Immunomedics, Inc., and on the Boards of Genetic Therapy, Inc., Vernalis Group, plc., Celltech Group, plc. and Matrix Pharmaceuticals which were acquired by other companies. He is on the Scientific Advisory Boards of the Seaver Foundation and the Jefferson Medical College Hospital for Neuroscience. He is a partner of Naimark Associates which consults to the biopharmaceutical industry.

William J. Robison – Board Member

Mr. Robison, who is retired, spent his entire 40 year career with Pfizer, Inc. At Pfizer, he rose through the ranks of the sales organization and became Senior Vice President of Pfizer Labs in 1986. In 1990, he became General Manager of Pratt Pharmaceuticals, a then new division of the U.S. Pharmaceuticals Group, and in 1992 he became the President of the Consumer Health Care Group. In 1996 he became a member of Pfizer's Corporate Management Committee and was promoted to the position of Executive Vice President and head of Worldwide Corporate Employee Resources. Mr. Robison retired from Pfizer in 2001 and currently serves as a consultant and board member to various companies. Mr. Robison is a board member and an executive committee member of the USO of Metropolitan New York, Inc. He is also on the board of Trustees at the University of Louisiana-Monroe foundation, a member of the Human Resources Roundtable Group, the Pharmaceutical Human Resource Council, the Personnel Round Table, and on the Employee Relations Steering Committee for The Business Round Table.

George Cardoza – Chief Financial Officer

Mr. Cardoza has served as Chief Financial Officer since November 2009. Prior to that from March 2008 to November 2009, Mr. Cardoza served as the Chief Financial Officer of Protocol Global Solutions, Inc., a privately held international marketing company. Mr. Cardoza also served as the Controller of Protocol Global Solutions from March 2006 to March 2008. From April 1991 to March 2006, Mr. Cardoza was employed by Quest Diagnostics Inc., a diagnostic testing, information and services company, in a number of positions, including the position of Controller—Central Region from 2001 to March 2006. At Quest Mr. Cardoza was responsible for overseeing all the financial operations of the Central Region, which had sales of over $1.2 billion in 2006. Prior to his time with Quest, he worked for Sony Music Entertainment Inc. and the Continental Grain Company in various financial roles. Mr. Cardoza received his B.S. from Syracuse University in finance and accounting and has received his M.B.A. from Michigan State University.

Jack G. Spitz – Vice President of Laboratory Operations

Mr. Spitz has served as Vice President of Laboratory Operations since December 2009. Prior to that Mr. Spitz most recently served as Executive Director of Operations for Dermpath Diagnostics, a division of Quest Diagnostics, and formerly a division of Ameripath, Inc., where he was responsible for running operations of five (5) dermatopathology laboratories across the Southeast United States. Prior to joining Ameripath in 2006, Mr. Spitz was employed by Genova Diagnostics, an international esoteric clinical laboratory, as Director of Laboratory Operations from 2000 to 2006. While at Genova Diagnostics, in addition to operational responsibilities, Mr. Spitz was also involved in many R&D projects, including ground up development of a genetic testing laboratory and he was responsible for the transition of tests from R&D to operations. Mr. Spitz received a B.A. degree in Pharmacy from the Medical University of South Carolina and a B.A. degree in Microbiology from the University of South Florida.

Grant Carlson – Vice President of Sales and Marketing

Mr. Carlson has served as Vice President of Sales and Marketing since July 2009. Mr. Carlson had previously served as a consultant to the Company since December 2008. Prior to that Mr. Carlson served as the President and Chief Executive Officer of Calgenex Corporation, a nutraceutical company which he co-founded, from March 2006 to June 2008. From April 2004 to February 2006, Mr. Carlson served as President and Chief Operating Officer of Nanobac Pharmaceuticals Incorporated, a pharmaceutical and diagnostic company. Mr. Carlson served as Vice President, Marketing and Business Development of Agilix Corporation, a functional genomics company, from April 2001 to April 2004. From January 1989 to April 2001, Mr. Carlson was employed by Dianon Systems, Inc., an anatomic pathology laboratory, lastly in the position of Vice President, Marketing & Business Development. Mr. Carlson received a B.S. degree in Kinesiology from the University of California, Los Angeles.

Matthew William Moore, Ph.D. – Vice President of Research and Development

Mr. Moore has served as Vice President of Research and Development since July 2006. Prior to that he served as Vice President of Research and Development for Combimatrix Molecular Diagnostics, a subsidiary of Combimatrix Corporation, a biotechnology company, developing novel microarray, Q-PCR and Comparative Genomic Hybridization based diagnostics. Prior to Combimatrix Molecular Diagnostics, he served as a senior scientist with US Labs, a division of Laboratory Corporation of America (LabCorp) where he was responsible for the initial implementation of the Molecular in Situ Hybridization and Molecular Genetics programs. Mr. Moore received his Bachelors of Science degree in Biotechnology, where he graduated with honors and his doctoral degree from the University of New South Wales, Australia.

Jerome J. Dvonch – Director of Finance, Principal Accounting Officer

Mr. Dvonch has served as Director of Finance since August 2005 and as Principal Accounting Officer since August 2006. 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 Manager of Business Analysis for Pharmchem Laboratories, a drug testing laboratory. 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.

Nomination Criteria

Members of our board of directors were nominated to serve as directors based on reasons that included among others, their experience in health related businesses or their business acumen as described above in their biographies.

Audit Committee

Currently, the Audit Committee of the Board of Directors is comprised of Mr. Petersen and Mr. O'Leary. Neither Mr. Petersen nor Mr. O'Leary are considered to be "independent" pursuant to NASDAQ Listing Rule 5605.

Compensation Committee

The Compensation Committee is comprised of Mr. Robison, Mr. Jones, and Dr. Dent. Mr. Jones and Dr. Dent are not considered "independent" as that term is defined by NASDAQ Listing Rule 5605.

Compliance Committee

The Compliance Committee is comprised of Mr. Jones and Dr. Jaffe. Mr. Jones and Dr. Jaffe are not considered "independent" as that term is defined by NASDAQ Listing Rule 5605. Mr. Jones is the chair of the compliance committee.

Independent Directors

Mr. O'Leary and Mr. Robinson are considered to be "independent" as that term is defined by NASDAQ Listing Rule 5605.

Executive Compensation

Summary Compensation Table

The following Summary Compensation Table sets forth all compensation earned and accrued, in all capacities, during the fiscal years ended December 31, 2009 and 2008, by our Named Executive Officers.

Name and Principal Position	Year	Salary	Bonus	Stock Award	Option Award(1)	Non-Equity Incentive Plan Compensation	Non-qualified Deferred Compensation Earnings	All Other Compensation	Total
Douglas VanOort (3) Chief Executive Officer and Chairman of the Board	2009	$ 218,846	$ 37,500	$ -	$ 203,479	$ -	$ -	$ -	$ 459,825
Robert P. Gasparini President and Chief Science Officer	2009	$ 249,968	$ 20,000	$ -	$ 72,372	$ -	$ -	$ -	$ 342,340
	2008	$ 235,872	$ 35,000	$ -	$ 89,985	$ -	$ -		$ 360,857
Grant Carlson(2) V.P. of Sales and Marketing	2009	$ 97,569	$ 12,000	$ -	$ 23,570	$ -	$ -	$ 110,802	$ 243,941
	2008	$ -	$ -	$ -	$ -	$ -	$ -	$ 17,517	$ 17,517

(1) See Item 8, Note F for a description on the valuation methodology of stock option awards and warrants. Mr. VanOort was granted warrants to purchase 625,000 shares of common stock and the stock compensation expense related to these warrants has been included in option awards.

(2) Mr. Carlson acted as a consultant to the Company from December 2008 until his hire date in July 2010 and received $105,102 for those services and he also received a $4,200 car allowance and a $1,500 cell phone allowance.

(3) Mr. VanOort began in March 2009 as Executive Chairman and Interim Chief Executive Officer and began as full time Chief Executive Officer in October 2009.

Outstanding Equity Awards at Fiscal Year End

The following table sets forth information with respect to outstanding equity awards held by our named executive officers as of December 31, 2009.

Name and Principal Position	Option Awards Number of Securities Underlying Unexercised Options Exercisable	Number of Securities Underlying Unexercised Options Un-exercisable	Equity Incentive Plan Awards-Number of Securities Underlying Unexercised & Unearned Options	Option Exercise Price	Option Expiration Date
Doug VanOort Chief Executive Officer and Chairman of the Board of Directors	200,000	800,000(1)	-	$ 0.80	3/15/2016
Robert P. Gasparini President and Chief Science Officer	575,000	-	175,000	0.25	1/1/2015
	100,000	-	150,000	1.47	2/13/2017
	292,000	292,000(2)(3)	200,000	0.80	3/12/2015
	50,000	100,000(3)	50,000	0.62	2/9/2019
Grant Carlson V.P. of Sales and Marketing	18,750	131,250(1)	-	1.32	7/22/2014

(1) Please see Note G of the consolidated financial statements for a vesting detail.

(2) 288,000 of the options are time-based and vest monthly from January 2009 through December 2011; the remaining 300,000 options have annual performance measures that are tied to each of the next three years.

(3) Relates to a cancelation of certain performance options which resulted in a new option grant of performance options.

Director Compensation

Each of our non-employee directors is entitled to receive cash compensation. As of December 31, 2009 the reimbursement was as follows:

- $1,000 for each board meeting physically attended
- $500 for each board meeting attended via conference call
- $5,000 for each calendar quarter served as director
- $150 per hour for all hours worked as part of any committee

We also reimburse our directors for out of pocket expenses incurred in connection with attendance at board and committee meetings. The following table provides information concerning the compensation of our directors for the year ended December 31, 2009.

Name	Fees Earned or Paid in Cash	Stock Awards	Warrant/ Option Awards(1)	Non-Equity Incentive Plan Compensation	Nonqualified Deferred Compensation Earnings	All Other Compensation	Total
Michael T. Dent (2)	$ 27,800	$ -	$ 17,000	$ -	$ -	$ -	$ 44,800
Steven Jones (2)	26,600	-	17,000	-	-	199,600	243,200
George O'Leary (2)	30,350	-	17,000	-	-	60,200	107,550
Peter Peterson (2)	26,800	-	17,000	-	-	-	43,800
William Robison (3)	31,918	-	17,000	-	-	-	48,918
Marvin Jaffe (3)	26,100	-	17,000	-	-	-	43,100

(1) On June 6, 2007, upon the conclusion of the private placement and sale of 2.67 million shares of our stock at $1.50/share to disinterested third parties, the board approved certain warrant compensation for each director as an additional incentive to the nominal per meeting fees in place. From the inception of the Company up until this time, no stock-based compensation had ever been awarded to directors. All warrants issued to directors had a strike price equal to the private placement price per share ($1.50/share), a five year term and a three year vesting period. For those directors who had been a director for at least two years as of the date of the award, 25% of the warrants issued were deemed to have vested upon issue. All of the remaining warrants were deemed to vest ratably over a 36 month period. All of the warrants issued were valued using the Black Scholes option/warrant valuation model with the following assumptions: expected volatility – 35%, expected life – 4 years, risk-free rate – 4.5%, and dividend yield – 0%. The Company is expensing the value of these warrants over the vesting period pursuant to the methodology outlined in SFAS 123(R). Pursuant to Regulation SB, Item 402, Paragraph (f)(2)(iii), amounts indicated are the amounts expensed for such warrants under SFAS 123 (R) for the year ended December 31, 2008.

(2) Awarded on June 6, 2007 a warrant to purchase 100,000 shares of common stock as board member compensation. Such warrants were valued at $51,000 using the Black-Scholes option/warrant valuation model.

(3) Awarded on June 6, 2007 a warrant to purchase 75,000 shares of common stock as board member compensation on June 6, 2007. Such warrants were valued at $38,000 using the Black-Scholes option/warrant valuation model.

(4) Other compensation for Mr. Jones reflects his consulting compensation for serving as our Executive Vice President of Finance and Acting Principal Financial Officer.

(5) In addition to Mr. O'Leary's Board compensation warrants, Mr. O'Leary was also awarded 100,000 warrants on March 15, 2007 in connection with certain consulting services performed on behalf of the Company. Such warrants have a strike price of $1.49/share and a five year term. Half of such warrants were deemed vested up front and the remaining half vest ratably over a 24 month period. Such warrants had a value of $36,000 using the Black Scholes option/warrant valuation model.

Employment Agreements

Please see Note G of the financial statements for disclosures with respect to the employment agreements and offer letters, if applicable, to which certain of the named executive officers described in the above Summary Compensation Table are subject.

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 outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans
Equity compensation plans approved by security holders:			
Amended and Restated Equity Incentive Plan (“Equity Incentive Plan”)	4,861,653	$ 0.85	1,039,299(d)
Employee Stock Purchase Plan (“ESPP”)	-	N/A	275,356
Equity compensation plans not approved by security holders	975,000(b,c)	$ 0.96	-
Total	5,836,653	$ 0.87	

(a) As of December 31, 2009.

(b) Includes an outstanding option to purchase 350,000 shares of common stock granted to Robert P. Gasparini, our President and Chief Science Officer, outside the Company’s Equity Incentive Plan on March 12, 2008. The options have an exercise price of $0.80 per share and vests based on the achievement of certain performance milestones. In the event of a change of control of the Company, all unvested portions of the option will vest in full. Unless sooner terminated pursuant to the terms of the stock option agreement, the option will terminate on March 12, 2015.

(c) Includes outstanding warrants to purchase 625,000 shares of common stock at an exercise price of $1.05 per share granted to Doug VanOort on March 16, 2009. The warrants vest based on the achievement of certain performance milestones. In the event of a change of control of the Company with a share price in excess of $4.00 per share, all unvested warrants will vest immediately. Unless sooner terminated pursuant to the terms of the warrant agreement, the warrants will terminate on March 15, 2014.

(d) The Company’s Equity Incentive Plan was amended and restated on March 3, 2009, and subsequently approved by shareholders holding a majority of the shares outstanding, to allow for the issuance of an aggregate of up to 6,500,000 shares under the plan.

Currently, the Company’s Equity Incentive Plan, as amended and restated on October 31, 2006 and again amended and restated on March 3, 2009, and the Company’s ESPP, dated October 31, 2006, are the only equity compensation plans in effect.

PRINCIPAL STOCKHOLDERS

The following table sets forth information as of April 27, 2010, 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.

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Title of Class	Name And Address Of Beneficial Owner	Amount and Nature Of Beneficial Ownership (1)	Percent Of Class(1)
Common	Aspen Select Healthcare, LP (2) 1740 Persimmon Drive, Suite 100 Naples, Florida 34109	11,666,155	28.9%
Common	Steven C. Jones (3) c/o NeoGenomics, Inc. 12701 Commonwealth Blvd, Suite 5 Fort Myers, FL 33193	12,786,362	31.4%
Common	Michael T. Dent, M.D. (4) c/o NeoGenomics, Inc. 12701 Commonwealth Blvd, Suite 5 Fort Myers, FL 33193	2,489,162	6.6%
Common	Douglas M. VanOort (5) c/o NeoGenomics, Inc. 12701 Commonwealth Blvd, Suite 5 Fort Myers, FL 33193	1,199,000	3.2%
Common	Robert P. Gasparini (6) c/o NeoGenomics, Inc. 12701 Commonwealth Blvd, Suite 5 Fort Myers, FL 33193	1,186,275	3.1%
Common	George O'Leary (7) c/o NeoGenomics, Inc. 12701 Commonwealth Blvd, Suite 5 Fort Myers, FL 33193	200,000	*
Common	Peter M. Peterson (8) c/o NeoGenomics, Inc. 12701 Commonwealth Blvd, Suite 5 Fort Myers, FL 33193	11,978,900	29.6%
Common	William J. Robison (9) c/o NeoGenomics, Inc. 12701 Commonwealth Blvd, Suite 5 Fort Myers, FL 33193	144,713	*
Common	Marvin E. Jaffe, M.D. (10) c/o NeoGenomics, Inc. 12701 Commonwealth Blvd, Suite 5 Fort Myers, FL 33193	96,429	*
Common	George Cardoza (11)	9,000	*

	c/o NeoGenomics, Inc. 12701 Commonwealth Blvd, Suite 5 Fort Myers, FL 33193		
Common	Grant Carlson (12) c/o NeoGenomics, Inc. 12701 Commonwealth Blvd, Suite 5 Fort Myers, FL 33193	24,850	*
Common	Matthew W. Moore (13) c/o NeoGenomics, Inc. 12701 Commonwealth Blvd, Suite 5 Fort Myers, FL 33193	76,875	*

Common	Jack G. Spitz c/o NeoGenomics, Inc. 12701 Commonwealth Blvd, Suite 5 Fort Myers, FL 33193	-	*
Common	Jerome J. Dvonch (14) c/o NeoGenomics, Inc. 12701 Commonwealth Blvd, Suite 5 Fort Myers, FL 33193	165,167	-
Common	Directors and Officers as a Group (13 persons) (15)	18,477,833	42.3%
Common	Abbott Laboratories (16) 100 Abbott Park Road Dept. 322, Bldg. AP6A-2 Abbott Park, Illinois 60064-6049	3,500,000	9.4%
Common	SKL Family Limited Partnership (17) 984 Oyster Court Sanibel, FL 33957	2,900,000	7.6%
Common	1837 Partners, LP., 1837 Partners, QP,LP., and 1837 Partner Ltd. (1837 RMB Managers, LLC) (18) 115 South LaSalle St., 34th Floor Chicago, IL 60603	3,481,175	9.3%
Common	Blair R. Haarlow (19) c/o RMB Capital 115 South LaSalle St., 34th Floor Chicago, IL 60603	3,927,585	10.5%
Common	Francis Tuite (20) c/o RMB Capital 115 South LaSalle St., 34th Floor Chicago, IL 60603	3,524,175	9.5%

* Less than one percent (1%)

(1) The number and percentage of shares beneficially owned are determined in accordance with Rule 13d-3 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and the information is not necessarily indicative of beneficial ownership for any other purpose. Under such rule, beneficial ownership includes any shares over which the individual or entity has voting power or investment power and any shares of common stock that the individual has the right to acquire within 60 days of April 27, 2010, through the exercise of any stock option or other right. As of April 27, 2010, 37,278,667 shares of the Company’s common stock were outstanding.

(2) Aspen Select Healthcare, LP (Aspen) has direct ownership of 5,905,279 shares and has certain warrants to purchase 3,050,000 shares, all of which are exercisable within 60 days of April 27, 2010. Also includes 2,710,876 shares to which Aspen has received a voting proxy. The general partner of Aspen is Medical Venture Partners,

LLC, an entity controlled by Steven C. Jones and Peter M. Peterson.

(3) Steven C. Jones, Executive Vice President - Finance and director of the Company, has direct ownership of 391,164 shares and warrants exercisable within 60 days of April 27, 2010 to purchase an additional 127,298 shares. Totals for Mr. Jones also include (i) 129,412 shares owned by Aspen Opportunity Fund, LP, an investment partnership that Mr. Jones and Mr. Peterson control, (ii) 107,143 shares owned by Jones Network, LP, a family limited partnership that Mr. Jones controls, (iii) warrants exercisable within 60 days of April 27, 2010 to purchase 250,000 shares, that are owned by Aspen Capital Advisors, LLC, a company that Mr. Jones controls, (iv) warrants exercisable within 60 days of April 27, 2010 to purchase 83,333 shares that are owned by Gulf Pointe Capital, LLC, a company that Mr. Jones and Mr. Peterson control, and (v) 31,857 shares held in certain individual retirement and custodial accounts. In addition, as a managing member of the general partner of Aspen, he has the right to vote all shares controlled by Aspen, thus all Aspen shares and currently exercisable warrants have been added to his total (see Note 2).

(4) Michael T. Dent, M.D. is a director of the Company. Dr. Dent's beneficial ownership includes (i) 900,000 shares held in the Mary S. Dent Gifting Trust (of which Dr. Dent and his attorney are the sole trustees), (ii) warrants and options exercisable within sixty days of April 27, 2010 to purchase 572,992 shares, and (iii) 1,016,170 shares owned directly by Dr. Dent's spouse, Mary S. Dent.

(5) Douglas M. VanOort, the Chairman and CEO of the Company, has direct ownership of (i) 636,500 shares, (ii) warrants exercisable within 60 days of April 27, 2010 to purchase 125,000 shares of stock, and (iii) options exercisable within sixty days of April 27, 2010 to purchase 437,500 shares.

(6) Robert P. Gasparini, President of the Company, has direct ownership of 145,275 shares and options exercisable within 60 days of April 27, 2010 to purchase 1,041,000 shares.

(7) George O'Leary, a director of the Company, has direct ownership of warrants exercisable within 60 days of April 27, 2010 to purchase 200,000 shares.

(8) Peter M. Peterson, a director of the Company, has direct ownership of warrants exercisable within 60 days of April 27, 2010 to purchase 100,000 shares. In addition, as a managing member of the general partner of Aspen, he has the right to vote all shares controlled by Aspen, thus all Aspen shares and currently exercisable warrants have been added to his total (see Note 2). Mr. Peterson's beneficial ownership also includes (i) warrants exercisable within 60 days of April 27, 2010 to purchase an additional 83,333 shares that are owned by Gulf Pointe Capital, LLC, a company that Mr. Jones and Mr. Peterson control, and (ii) 129,412 shares owned by Aspen Opportunity Fund, LP, an investment partnership that Mr. Jones and Mr. Peterson control.

(9) William J. Robison, a director of the Company, has direct ownership of 69,713 shares and warrants exercisable within 60 days of April 27, 2010 to purchase 75,000 shares.

(10) Marvin E. Jaffe, M.D., a director of the Company, has direct ownership of 21,429 shares and warrants exercisable within 60 days of April 27, 2010 to purchase 75,000 shares.

(11) George Cardoza, Chief Financial Officer, has direct ownership of 9,000 shares.

(12) Grant Carlson, Vice President of Sales and Marketing, has direct ownership of 6,100 shares and options exercisable within 60 days of April 27, 2010 to purchase 18,750 shares.

(13) Matthew W. Moore, Vice President of Research and Development, has options exercisable within 60 days of April 27, 2010 to purchase 76,875 shares.

(14) Jerome J. Dvonch, Principal Accounting Officer, has options exercisable within 60 days of April 27, 2010 to purchase 165,167 shares.

(15) The total number of shares listed does not double count the shares that may be beneficially attributable to more than one person.

(16) Abbott Laboratories has direct ownership of 3,500,000 share.

(17) SKL Family Limited Partnership has direct ownership of 2,000,000 shares and warrants exercisable within 60 days of April 27, 2010 to purchase 900,000 shares. The general partners of the SKL Family Limited Partnership are the Kent Logan Irrevocable Trust u/t/d 2/6/2008 and the Lance Logan Irrevocable Trust u/t/d 2/6/2008, with Kent Logan and Lance Logan as co-trustees of each trust.

(18) 1837 RMB Managers, LLC and its affiliates have direct ownership of 3,481,175 shares. 1837 RMB Managers, LLC acts as the general partner and makes all the investment decisions for 1837 Partners LP., 1837 Partners QP, LP and 1837 Partners LTD who own the shares listed.

(19) Blair R. Haarlow has direct ownership of 80,500 shares and controls certain trusts which own 365,910 shares. In addition, as a managing member of 1837 RMB Managers, LLC, he has the right to vote all shares controlled by 1837 RMB Managers, thus all shares owned or controlled by 1837 RMB Managers, LLC have been added to his total (see Note 18).

(20) Frances E. Tuite has direct ownership of 43,000 shares. In addition, as a managing member of 1837 RMB Managers, LLC, she has the right to vote all shares controlled by 1837 RMB Managers, thus all shares owned or controlled by 1837 RMB Managers, LLC have been added to her total (see Note 18).

MARKET PRICE OF AND DIVIDENDS ON THE REGISTRANT'S COMMON EQUITY AND OTHER STOCKHOLDER MATTERS

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

	HIGH BID		LOW BID	
1st Quarter 2010	$	1.70	$	1.15
4th Quarter 2009	$	1.80	$	1.41
3rd Quarter 2009	$	2.25	$	1.32
2nd Quarter 2009	$	1.49	$	0.92
1st Quarter 2009	$	1.19	$	0.56
4th Quarter 2008	$	1.05	$	0.56
3rd Quarter 2008	$	1.15	$	0.83
2nd Quarter 2008	$	1.35	$	0.86
1st Quarter 2008	$	1.15	$	0.72

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 necessarily represent actual transactions. All historical data was obtained from the www.NASDAQ.com web site. As of April 27, 2010, the last reported price of our common was $1.42 per share.

As of April 27, 2010, there were 503 stockholders of record of our common stock, excluding stockholders who hold their shares in brokerage accounts in "street name". Of the 37,278,667 shares of common stock outstanding as of April 27, 2010, 26,842,462 shares are freely tradable without restriction, unless held by our "affiliates". The remaining 10,436,205 shares of our common stock which are held by existing stockholders, including the officers and directors, are "restricted securities" and may be resold in the public market only if registered or pursuant to an exemption from registration. Some of these shares may be resold under Rule 144.

Dividend Policy

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. In addition, certain financing agreements entered into by the Company may limit our ability to pay dividends in the future.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Consulting Agreements

During 2009, 2008 and 2007, Steven C. Jones, a director of the Company and Executive Vice President of Finance, earned $199,600, $176,300 and $128,000, respectively, for various consulting work performed in connection with his duties as Executive Vice President of Finance and Acting Principal Financial Officer.

During the three months ended March 31, 2010 and 2009, Steven C. Jones, a director of the Company, earned approximately $67,000 and $56,000, respectively, for various consulting work performed in connection with his duties as Executive Vice President of Finance or Acting Principal Financial Officer.

During 2009, 2008 and 2007, George O'Leary, a director of the Company, earned $60,200, $22,200 and $9,500, respectively, in cash for various consulting work performed for the Company. On May 13, 2005, Mr. O'Leary received 100,000 warrants to purchase common stock in connection with consulting work performed for the Company. Such warrants had an exercise price of $0.25 per share and a five year term. On January 18, 2006, Mr. O'Leary received 50,000 stock options for work performed for the benefit of the Company. The stock options had an exercise price of $0.26 per/share. On March, 15, 2007, Mr. O'Leary received 100,000 warrants for certain consulting services performed for the Company. These warrants had an exercise price of $1.49 per share and a five year term. Half of the warrants were deemed vested on issuance and the other half vested ratably over a 24 month period. During 2009, Mr. O'Leary exercised the 100,000 warrants issued in May 2005 and the 50,000 stock options issued in January 2006 in a cash-less exercise per the terms of the agreements. The Company issued 85,030 and 42,215 shares to settle these exercises, respectively.

During the three months ended March 31, 2010 and 2009, George O'Leary, a director of the Company, earned approximately $0 and $9,500, respectively, for various consulting work performed for the Company.

On June 6, 2007, we issued to the six non-employee director's of our board of directors a total of 550,000 warrants. Such warrants had an exercise price of $1.50/share with three year vesting and a five year final term. These warrants were valued at approximately $280,000 on the date of issuance using the Black-Scholes option pricing model and our being expensed over the vesting period. These warrants expire in June 2012.

Laboratory Information System

On March 11, 2005, we entered into an agreement with HCSS, LLC and eTelenext, Inc. to enable NeoGenomics to use 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, a member of our Board of Directors. George O'Leary, a member of our board of directors is Chief Financial Officer of HCSS, LLC.

On June 18, 2009, we entered into a Software Development, License and Support Agreement with HCSS, LLC and eTelenext, Inc. to upgrade the Company's laboratory information system to APvX. . The estimated costs for the development and migration phase are anticipated to be approximately $75,000 and are expected to be completed in April 2010. This agreement has an initial term of 5 years from the date of acceptance and calls for monthly fees of $8,000-$12,000 during the term. During the years ended December 31, 2009, 2008 and 2007, HCSS earned approximately $87,675, $99,900 and approximately $77,000, respectively, for transaction fees related to completed tests.

During 2009, eTelenext and HCSS were merged to form PathCenter, Inc. Dr. Michael T. Dent and Mr. George O'Leary have beneficial ownership of 12.2% and 4.6%, respectively of PathCenter, Inc.

For the three months ended March 31, 2010 and 2009, Path Center Inc. (eTelenext/HCSS) earned approximately $69,000 and $38,000 respectively.

Gulf Pointe Capital Lease Agreement

On September 30, 2008, we entered into a master lease agreement (the "Master Lease") with Gulf Pointe Capital, LLC ("Gulf Pointe") which provided for $130,000 of lease financing after it was determined that the lease facility with Leasing Technologies International, Inc. would not allow for the leasing of certain used and other types of equipment. Three members of our Board of Directors, Steven Jones, Peter Petersen and Marvin Jaffe, are affiliated with Gulf Pointe and recused themselves from both sides of all negotiations concerning this transaction. The terms under this lease are consistent with the terms of our other lease arrangements and provided for the sale/leaseback of approximately $130,000 of used laboratory equipment. The lease has a 30 month term and a lease rate factor of 0.0397/month, which equates to monthly payments of $5,155 during the term. In consideration for entering into the Master Lease, the Company issued 32,475 common stock warrants to Gulf Pointe with an exercise price of $1.08 and a five year term. The warrants were valued at approximately $11,000 using the Black-Scholes option pricing model. At the end of the lease term, the Company's options are as follows: (a) purchase not less than all of the equipment for its then fair market value, not to exceed 15% of the original equipment cost, (b) extend the lease term for a minimum of six months, or (c) return not less than all the equipment at the conclusion of the lease term.

On February 9, 2009, we amended our Master Lease with GulfPointe to increase the maximum size of the facility to $250,000 and entered into a second schedule under the Master Lease for the sale/leaseback of approximately $118,000 of used laboratory equipment. This second lease has a 30 month term at the same lease rate factor per month as the first lease, which equates to monthly payments of $4,690 during the term. As part of this amendment, we terminated the original warrant agreement dated September 30, 2008 and replaced it with a new warrant to purchase 83,333 shares of our common stock. Such new warrants have a five year term, an exercise price of $0.75 per share and the same vesting schedule as the original warrants. The replacement warrants were valued using the Black-Scholes option pricing model and the value did not materially differ from the valuation of the original warrants they replaced.

Share Purchase by the Douglas M. VanOort Living Trust

On March 16, 2009, the Company and the Douglas M. VanOort Living Trust entered into a Subscription Agreement (the "Subscription Agreement") pursuant to which the Douglas M. VanOort Living Trust purchased 625,000 shares of the Company's common stock at a purchase price of $0.80 per share (the "Subscription Shares"). Douglas M VanOort is Chairman of the Company Board of Directors and Executive Chairman and interim Chief Executive Officer of the Company. The Subscription Shares are subject to a two year lock-up that restricts the transfer of the Subscription Shares; provided, however, that such lock-up shall expire in the event that the Company terminates Mr. VanOort's employment. The Subscription Agreement also provides for certain piggyback registration rights with respect to the Subscription Shares.

On March 16, 2009, the Company and Mr. VanOort entered into a Warrant Agreement (the "Warrant Agreement") pursuant to which Mr. VanOort, subject to the vesting schedule described below, may purchase up to 625,000 shares of the Company's common stock at an exercise price of $1.05 per share (the "Warrant Shares"). These warrants had an aggregate fair value of $160,267. The Warrant Shares vest based on the following vesting schedule:

(i) 20% of the Warrant Shares vest immediately,
(ii) 20% of the Warrant Shares will be deemed to be vested on the first day on which the closing price per share of the Company's common stock has reached or exceeded $3.00 per share for 20 consecutive trading days,
(iii) 20% of the Warrant Shares will be deemed to be vested on the first day on which the closing price per share of the Company's common stock has reached or exceeded $4.00 per share for 20 consecutive trading days,
(iv) 20% of the Warrant Shares will be deemed to be vested on the first day on which the closing price per share of the Company's common stock has reached or exceeded $5.00 per share for 20 consecutive trading days and
(v) 20% of the Warrant Shares will be deemed to be vested on the first day on which the closing price per share of the Company's common stock has reached or exceeded $6.00 per share for 20 consecutive trading days.

In the event of a change of control of the Company in which the consideration payable to each common stockholder of the Company in connection with such change of control has a deemed value of at least $4.00 per share, then the Warrant Shares shall immediately vest in full. In the event that Mr. VanOort resigns his employment with the Company or the Company terminates Mr. VanOort's employment for "cause" at any time prior to the time when all Warrant Shares have vested, then the rights under the Warrant Agreement with respect to the unvested portion of the Warrant Shares as of the date of termination will immediately terminate.

DESCRIPTION OF CAPITAL STOCK

Common Stock

We are authorized to issue 100,000,000 shares of common stock, par value $0.001 per share, of which 37,278,667 shares were issued and outstanding as of April 27, 2010.

The securities being offered hereby are common stock. The outstanding shares of our common stock are fully paid and non-assessable. The holders of common stock are entitled to one vote per share for the election of directors and with respect to all other matters submitted to a vote of stockholders. Shares of our common stock do not have cumulative voting rights, which means that the holders of more than 50% of such shares voting for the election of directors can elect 100% of the directors if they choose to do so. Our common stock does not have preemptive rights, meaning that the common stockholders' ownership interest in the Company would be diluted if additional shares of common stock are subsequently issued and the existing stockholders are not granted the right, at the discretion of the Board of Directors, to maintain their ownership interest in our Company.

Upon liquidation, dissolution or winding-up of the Company, our assets, after the payment of debts and liabilities and any liquidation preferences of, and unpaid dividends on, any class of preferred stock then outstanding, will be distributed pro-rata to the holders of our common stock. The holders of our common stock do not have preemptive or conversion rights to subscribe for any of our securities and have no right to require us to redeem or purchase their shares. The holders of common stock are entitled to share equally in dividends, if, as and when declared by our Board of Directors, out of funds legally available therefore, subject to the priorities given to any class of preferred stock which may be issued.

Preferred Stock

We are authorized to issue 10,000,000 shares of preferred stock, par value $0.001 per share (the "Preferred Stock"). Preferred Stock may be issued from time to time in one or more series. The Board of Directors is authorized to fix or alter the dividend rights, dividend rate, conversion rights, voting rights, rights and terms of redemption (including sinking fund provisions), the redemption price or prices, the liquidation preferences of any wholly unissued series of Preferred Stock, and the number of shares constituting any such series and the designation thereof, or any of them; and to increase or decrease the number of shares of any series subsequent to the issue of shares of that series, but not below the number of shares of such series then outstanding and which the Company may be obligated to issue under options, warrants or other contractual commitments. In case the number of shares of any series shall be so decreased, the shares constituting such decrease shall resume the status which they had prior to the adoption of the resolution originally fixing the number of shares of such series. As of April 27, 2010, no such shares had been designated.

Warrants

As of April 27, 2010, warrants to purchase 5,891,750 shares of our common stock were outstanding, 5,391,750 of which were vested. The exercise prices of these warrants range from $0.26 to $1.50 per share.

Options

As of April 27, 2010, options to purchase 5,017,336 shares of our common stock were outstanding. The exercise prices of these options range from $0.16 to $1.82 per share.

Transfer Agent

The Company’s transfer agent is Standard Registrar & Transfer Company located at 12528 South 1840 East Draper, Utah, 84020. The transfer agent’s telephone number is (801) 571-8844.

Reports To Stockholders

We file an annual report on Form 10-K with the Securities Exchange Commission each year which describes the nature and scope of our business and operations for the prior year and contains a copy of our audited financial statements for the most recent fiscal year.

Indemnification Of Directors And Executive Officers And Limitation On Liability

The Company's Articles of Incorporation provide that no director or officer of the Company shall be personally liable to the Company or any of its stockholders for damages for breach of fiduciary duty as a director or officer of for any act or omission of any such director or officer; however such indemnification shall not eliminate or limit the liability of a director or officer for (a) acts or omissions which involve intentional misconduct, fraud or a knowing violation of law or (b) the payment of dividends in violation of Section 78.300 of the Nevada Revised Statutes. The Company's Amended and Restated Bylaws (the "Bylaws") provide that any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative, by reason of the fact that such person is or was a director, officer, employee or agent of the Company (or is or was serving at the request of the Company as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise) shall be indemnified and held harmless by the Company to the fullest extent permitted by Nevada law against expenses including attorneys' fees, judgments, fines and amounts paid in settlement actually and reasonably incurred by such person in connection with such proceeding.

The Bylaws also provide that the Company must indemnify any person who was or is a party, or is threatened to be made a party, to any threatened, pending or completed proceeding by or in the right of the Company to procure a judgment in its favor by reason of the fact that such person is or was a director, officer, employee or agent of the Company, or is or was serving at the request of the Company as a director, officer, employee, or agent of another corporation, partnership, joint venture, trust or other enterprise against costs incurred by such person in connection with the defense or settlement of such action or suit. Such indemnification may not be made for any claim, issue or matter as to which such person has been adjudged by a court of competent jurisdiction, after exhaustion of all appeals, to be liable to the Company or for amounts paid in settlement to the Company, unless and only to the extent that the court determines upon application that in view of all the circumstances of the case, the person is fairly and reasonably entitled to indemnity for such expenses as the court deems proper.

The Bylaws provide that the Company must pay the costs incurred by any person entitled to indemnification in defending a proceeding as such costs are incurred and in advance of the final disposition of a proceeding; provided however, that the Company must pay such costs only upon receipt of an undertaking by or on behalf of such person to repay the amount if it is ultimately determined by a court of competent jurisdiction that such person is not entitled to be indemnified by the Company.

The Bylaws provide that the Company may purchase and maintain insurance or make other financial arrangements on behalf of any person who is or was a director, officer, employee or agent of the Company, or is or was serving at the request of the Company as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise in accordance with Section 78.752 of the Nevada Revised Statutes.

Nevada Revised Statutes 78.751 and 78.7502 have similar provisions that provide for discretionary and mandatory indemnification of officers, directors, employees, and agents of a corporation. Under these provisions, such persons may be indemnified by a corporation against expenses, including attorney's fees, judgment, fines and amounts paid in settlement, actually and reasonably incurred by him in connection with the action, suit or proceeding, if he acted in good faith and in a manner which he reasonably believed to be in or not opposed to the best interests of the corporation and with respect to any criminal action or proceeding had no reasonable cause to believe his conduct was unlawful.

To the extent that a director, officer, employee or agent has been successful on the merits or otherwise in defense of any action, suit or proceeding, or in defense of any claim, issue or matter, the Nevada Revised Statues provide that he must be indemnified by the Company against expenses, including attorney's fees, actually and reasonably incurred by him in connection with the defense.

Section 78.751 of the Nevada Revised Statues also provides that any discretionary indemnification, unless ordered by a court or advanced by the Company, must be made only as authorized in the specific case upon a determination that indemnification of the director, officer, employee or agent is proper in the circumstances. The determination must be made:

- By the stockholders;
- By the Company's Board of Directors by majority vote of a quorum consisting of directors who were not parties to that act, suit or proceeding;
- If a majority vote of a quorum consisting of directors who were not parties to the act, suit or proceeding cannot be obtained, by independent legal counsel in a written opinion; or

- If a quorum consisting of directors who were not parties to the act, suit or proceeding cannot be obtained, by independent legal counsel in a written opinion.

Insofar as indemnification for liabilities arising under the Securities Act, as amended, may be permitted to directors, officers, and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the SEC such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer, or controlling person in the successful defense of any action, suit, or proceeding) is asserted by such director, officer, or controlling person connected with the securities being registered, we will, unless in the opinion of our counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

LEGAL MATTERS

The validity of the shares offered hereby has been opined on for us by Burton, Bartlett & Glogovac.

EXPERTS

Our consolidated financial statements as of December 31, 2009 and 2008 and for the years then ended included or referred to in this prospectus have been audited by Kingery & Crouse, P.A., independent registered public accountants, and are included in this prospectus in reliance on this firm as experts in accounting and auditing.

AVAILABLE INFORMATION

We have filed with the SEC a registration statement on Form S-1 under the Securities Act with respect to the securities offered by this prospectus. This prospectus, which forms a part of the registration statement, does not contain all the information set forth in the registration statement, as permitted by the rules and regulations of the SEC. For further information with respect to us and the securities offered by this prospectus, reference is made to the registration statement.

Statements contained in this prospectus as to the contents of any contract or other document that we have filed as an exhibit to the registration statement are qualified in their entirety by reference to the exhibits for a complete statement of their terms and conditions.

We file annual, quarterly and current reports and other information with the SEC. Such reports, the registration statement and other information may be read and copied at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549 on official business days during the hours of 10 a.m. to 3 p.m. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains a web site at http://www.sec.gov that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC.

CONSOLIDATED FINANCIAL STATEMENTS OF NEOGENOMICS, INC.

NEOGENOMICS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands, except share data)

	March 31, 2010 (unaudited)	December 31, 2009
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 1,661	$ 1,631
Restricted cash	1,000	1,000
Accounts receivable (net of allowance for doubtful accounts of $695 and $589, respectively)	5,492	4,632
Inventories	582	602
Other current assets	515	655
Total current assets	9,250	8,520
PROPERTY AND EQUIPMENT (net of accumulated depreciation of $3,202 and $2,787 respectively)	4,882	4,340
OTHER ASSETS	86	85
TOTAL ASSETS	$ 14,218	$ 12,945
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	$ 1,762	$ 1,969
Accrued compensation	1,007	1,308
Accrued expenses and other liabilities	439	465
Short-term portion of equipment capital leases	1,823	1,482
Revolving credit line	2,453	552
Total current liabilities	7,484	5,776
LONG TERM LIABILITIES		
Long-term portion of equipment capital leases	1,631	1,526
TOTAL LIABILITIES	9,115	7,302
Commitments and contingencies		
STOCKHOLDERS' EQUITY		
Common stock, $.001 par value, (100,000,000 shares authorized; 37,270,055 and 37,185,078 shares issued and outstanding at March 31, 2010 and December 31, 2009, respectively)	37	37
Additional paid-in capital	23,972	23,762
Accumulated deficit	(18,906)	(18,156)
Total stockholders' equity	5,103	5,643

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$	14,218	$	12,945

See notes to unaudited condensed consolidated financial statements.

NEOGENOMICS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share amounts)
(unaudited)

	For the Three Months Ended March 31, 2010	2009
NET REVENUE	$ 8,418	$ 6,914
COST OF REVENUE	4,344	3,091
GROSS MARGIN	4,074	3,823
OPERATING EXPENSES		
General and administrative	2,902	2,341
Sales and marketing	1,763	1,334
Total operating expenses	4,665	3,675
INCOME / (LOSS) FROM OPERATIONS	(591)	148
INTEREST INCOME (EXPENSE) - NET	(159)	(115)
NET INCOME (LOSS)	$ (750)	$ 33
NET INCOME (LOSS) PER SHARE		
- Basic	$ (0.02)	$ 0.00
- Diluted	$ (0.02)	$ 0.00
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING		
- Basic	37,220	32,173
- Diluted	37,220	35,630

See notes to unaudited condensed consolidated financial statements.

NEOGENOMICS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(unaudited)

	For the Three Months Ended March 31,			
	2010		2009	
CASH FLOWS FROM OPERATING ACTIVITIES				
Net income (loss)	$	(750)	$	33
Adjustments to reconcile net income (loss) to net cash used in provided by operating activities:				
Provision for bad debts		540		508
Depreciation		415		237
Amortization of debt issue costs		18		13
Stock-based compensation		109		58
Non-cash consulting expenses		19		20
Changes in assets and liabilities, net:				
(Increase) decrease in accounts receivable, net of write-offs		(1,401)		(1,550)
(Increase) decrease in inventories		20		(86)
(Increase) decrease in prepaid expenses		122		(28)
(Increase) decrease in deposits		-		(8)
Increase (decrease) in accounts payable and other liabilities		(656)		472
NET CASH USED IN OPERATING ACTIVITIES		(1,564)		(331)
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchases of property and equipment		(114)		(6)
NET CASH USED IN INVESTING ACTIVITIES		(114)		(6)
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from capital lease obligations		25		97
Advances on credit facility		1,901		272
Repayment of capital leases		(300)		(138)
Issuance of common stock and warrants for cash, net of transaction expenses		82		495
NET CASH PROVIDED BY FINANCING ACTIVITIES		1,708		726
NET INCREASE IN CASH AND CASH EQUIVALENTS		30		389
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD		1,631		468
CASH AND CASH EQUIVALENTS, END OF PERIOD	$	1,661	$	857
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION				
Interest paid	$	144	$	100
Income taxes paid	$	—	$	—
NON-CASH INVESTING AND FINANCING ACTIVITIES				
Equipment leased under capital leases	$	746	$	179
Equipment purchased and payables settled with issuance of restricted common stock	$	-	$	186

See notes to unaudited condensed consolidated financial statements.

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NEOGENOMICS, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
AS OF MARCH 31, 2010

NOTE A — NATURE OF BUSINESS AND BASIS OF FINANCIAL STATEMENT PRESENTATION

Nature of Business

NeoGenomics, Inc., a Nevada corporation (the "Parent"), and its subsidiary, NeoGenomics Laboratories, Inc. (formerly known as NeoGenomics, Inc.), a Florida corporation ("NEO", "NeoGenomics Laboratories" or the "Subsidiary") (collectively referred to as "we", "us", "our", "NeoGenomics", or the "Company"), operates as a certified "high comple clinical laboratory in accordance with the federal government's Clinical Laboratory Improvement Amendments of 1988 ("CLIA"), and is dedicated to the delivery of clinical diagnostic services to pathologists, oncologists, urologists, hospitals, and other laboratories throughout the United States.

Basis of Presentation

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

The accompanying condensed consolidated financial statements of the Company are unaudited and include all adjustments, in the opinion of management, which are necessary to make the financial statements not misleading. Except as otherwise disclosed, all such adjustments are of a normal recurring nature. Interim results are not necessarily indicative of results for a full year.

The interim condensed consolidated financial statements and notes are presented in accordance with the rules and regulations of the Securities and Exchange Commission and do not contain certain information included in the Company's Annual Report on Form 10-K for the year ended December 31, 2009. Therefore, the interim condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto contained in the Company's annual report.

Use of Estimates

The preparation of condensed consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the condensed consolidated financial statements and these notes to the condensed consolidated financial statements. The most significant estimates in the Company's condensed consolidated financial statements relate to revenue recognition, allowance for doubtful accounts and stock-based compensation. Actual results could differ from those estimates.

Revenue Recognition

The Company recognizes revenues in accordance with the Securities and Exchange Commission's (the "Commission") Staff Accounting Bulletin Topic 13.A.1 (ASC 605-10-S99-1)No. 104, "Revenue Recognition", when (a) the price is fixed or determinable, (b) persuasive evidence of an arrangement exists, (c) the service is performed and (d) collectability of the resulting receivable is reasonably assured.

The Company's specialized diagnostic services are performed based on a written test requisition form and revenues are recognized once the diagnostic services have been performed, the results have been delivered to the ordering physician, the payor has been identified and eligibility and insurance have been verified. These diagnostic services are billed to various payors, including Medicare, commercial insurance companies, other directly billed healthcare institutions such as hospitals and clinics, and individuals. The Company reports revenues from contracted payors, including Medicare, certain insurance companies and certain healthcare institutions, based on the contractual rate, or in the case of Medicare, published fee schedules. The Company reports revenues from non-contracted payors, including certain insurance companies and individuals, based on the amount expected to be collected. The difference between the amount billed and the amount expected to be collected from non-contracted payors is recorded as a contractual allowance to arrive at the reported revenues. The expected revenues from non-contracted payors are based on the historical collection experience of each payor or payor group, as appropriate. In each reporting period, the Company reviews its historical collection experience for non-contracted payors and adjusts its expected revenues for current and subsequent periods accordingly. As a result of the economic climate in the United States, we have used shorter and more current time horizons in analyzing historical experience.

NEOGENOMICS, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
AS OF MARCH 31, 2010

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable are reported at realizable value, net of allowance for doubtful accounts (the "Allowance"), which is estimated and recorded in the period the related revenue is recorded based on the historical collection experience for each type of payor. In addition, the Allowance is adjusted periodically, based upon an evaluation of historical collection experience with specific payors, payor types, and other relevant factors, including regularly assessing the state of our billing operations in order to identify issues which may impact the collectability of receivables or reserve estimates. Revisions to the Allowance are recorded as an adjustment to bad debt expense within general and administrative expenses. After appropriate collection efforts have been exhausted, specific receivables deemed to be uncollectible are charged against the Allowance in the period they are deemed uncollectible. Recoveries of receivables previously written-off are recorded as credits to the Allowance.

Stock-Based Compensation

The Company accounts for stock-based compensation in accordance with FASB ASC Topic 718 Compensation – Stock Compensation. ASC 718 requires recognizing compensation costs for all share-based payment awards made to employees and directors based upon the awards' grant-date fair value. The standard covers employee stock options, restricted stock, and other equity awards.

For stock options, the Company uses a trinomial lattice option-pricing model to estimate the grant-date fair value of stock option awards, and recognizes compensation cost on a straight-line basis over the awards' vesting periods. The Company estimates an expected forfeiture rate, which is factored into the determination of the Company's periodic expense.

Net Income (Loss) Per Common Share

We compute net income (loss) per share in accordance with ASC 260, Earnings per Share ("ASC 260"). Under the provisions of ASC 260, basic net income (loss) per share is computed by dividing the net income (loss) available to common stockholders by the weighted average number of common shares outstanding during the period. Diluted net income (loss) per share is computed by dividing the net income (loss) for the period by the weighted average number of common and common equivalent shares outstanding, using the treasury stock method, during the period. Equivalent shares consist of employee stock options and certain warrants issued to consultants and other providers of financing to the Company that are in-the-money based on the weighted average closing share price for the period. Under the treasury stock method, the number of in-the-money shares that are considered outstanding for this calculation is reduced by the number of common shares that theoretically could have been re-purchased by the Company with the aggregate exercise proceeds of such warrant and option exercises if such shares were re-purchased at the average market price for the period.

There were no common equivalent shares included in the calculation of diluted earnings per share for the three month period ended March 31, 2010 because the Company had a net loss for such period and therefore such common equivalent shares were anti-dilutive. Common equivalent shares outstanding as of March 31, 2009 using the treasury stock method includes approximately 2.63 million equivalent shares for unexercised warrants and approximately 827,000 shares for unexercised stock options, and these were included in the earnings per share calculation for the three months ended March 31, 2009.

NEOGENOMICS, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
AS OF MARCH 31, 2010

NOTE B — REVOLVING CREDIT AND SECURITY AGREEMENT

On February 1, 2008, our subsidiary, NeoGenomics Laboratories, Inc., a Florida corporation (“Borrower”), entered into a Revolving Credit and Security Agreement (the “Credit Facility” or “Credit Agreement”) with CapitalSource, the terms of which provide for borrowings based on eligible accounts receivable up to a maximum borrowing of $3.0 million, as defined in the Credit Agreement. Subject to the provisions of the Credit Agreement, CapitalSource shall make advances to us from time to time during the three year term, and the Credit Facility may be drawn, repaid and redrawn from time to time as permitted under the Credit Agreement.

Interest on outstanding advances under the Credit Facility are payable monthly in arrears on the first day of each calendar month at an annual rate based on the one-month LIBOR plus 3.25%, subject to a LIBOR floor of 3.14%. At March 31, 2010, the effective rate of interest was 6.39%.

To secure the payment and performance in full of the Obligations (as defined in the Credit Agreement), we granted CapitalSource a continuing security interest in and lien upon, all of our rights, title and interest in and to our Accounts (as defined in the Credit Agreement), which primarily consist of accounts receivable and cash balances held in lock box accounts. Furthermore, pursuant to the Credit Agreement, the Parent guaranteed the punctual payment when due, whether at stated maturity, by acceleration or otherwise, of all of the Obligations. The Parent guaranty is a continuing guarantee and shall remain in force and effect until the indefeasible cash payment in full of the Guaranteed Obligations (as defined in the Credit Agreement) and all other amounts payable under the Credit Agreement are made.

On November 3, 2008, the Company and CapitalSource signed a first amendment to the Credit Agreement. This amendment increased the amount allowable under the Credit Agreement to pay towards the settlement of the US Labs lawsuit to $250,000 from $100,000 and documented other administrative agreements between NeoGenomics and CapitalSource.

On April 14, 2009, the Parent Company, NeoGenomics Laboratories, Inc. (the wholly owned subsidiary of the Parent Company) (“Borrower”) and CapitalSource (as agent for CapitalSource Bank) entered into a Second Amendment to Revolving Credit and Security Agreement (the “Second Amendment”). The Second Amendment, among other things, amends that certain Revolving Credit and Security Agreement dated February 1, 2008 as amended by that certain First Amendment to Revolving Credit and Security Agreement dated November 3, 2008 (as amended, the “Loan Agreement”) to (i) provide that through December 31, 2009, the Borrower must maintain Minimum Liquidity (as defined in the Loan Agreement) of not less than $500,000, (ii) amend the definitions of “Fixed Charge Coverage Ratio” and “Fixed Charges”, (iii) amend the definition of “Permitted Indebtedness” to increase the amount of permitted capitalized lease obligations and indebtedness incurred to purchase goods secured by certain purchase money liens and (iv) amend and update certain representations, warranties and schedules. In addition, pursuant to the Second Amendment, CapitalSource waived the following events of default under the Loan Agreement: (i) the failure of the Borrower to comply with the fixed charge coverage ratio covenant for the test period ending December 31, 2008, (ii) the failure of the Borrower to notify CapitalSource of the change of Borrower’s name to NeoGenomics Laboratories, Inc. and to obtain CapitalSource’s prior consent to the related amendment to Borrower’s Articles of Incorporation, (iii) the failure of the Parent Company and the Borrower to obtain CapitalSource’s prior written consent to the amendment of the Parent Company’s bylaws to allow for the size of the Parent Company’s Board of Directors to be increased to eight members and (iv) the failure of the Borrower to notify CapitalSource of the filing of an immaterial complaint by the Borrower against a former employee of the Borrower. The Company paid CapitalSource Bank a $25,000 amendment fee in connection with the Second Amendment.

On March 26, 2010, we entered into an amendment (the "Third Amendment") to the credit facility agreement with CapitalSource for which we paid CapitalSource an amendment fee of $25,000 which was creditable against the commitment fee for our amended and restated Credit Agreeement signed on April 26, 2010. The Third Amendment waived events of default relating to our failure to comply with the Fixed Charge Coverage Ratio for the Test Periods ended January 31, 2010 and February 28, 2010. The Third Amendment also revised the Fixed Charge Coverage Ratio calculation for the Test Period ending March 31, 2010 to permit us to add amounts of unrestricted cash, unrestricted cash equivalents and unused availability to Adjusted EBITDA for purposes of the test. For each monthly Test Period after March 31, 2010, the calculation of the Fixed Charge Coverage Ratio will revert to Adjusted EBITDA, without adjustment for such amounts. We were in compliance with our covenants for the period ended March 31, 2010.

On March 31, 2010, we had an outstanding amount due on the Credit Facility of approximately $2,450,000 and the available credit under the Credit Facility was approximately $550,000.

NEOGENOMICS, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
AS OF MARCH 31, 2010

On April 26, 2010 as described more fully in Note F we increased our Credit Facility to $5.0 million and we had an outstanding amount due on the Credit Facility of approximately $2.3 million and the available credit under the Credit Facility was approximately $1.7 million.

NOTE C — COMMON STOCK PURCHASE AGREEMENT

On November 5, 2008, we entered into a common stock purchase agreement (the “Stock Agreement”) with Fusion Capital Fund II, LLC an Illinois limited liability company (“Fusion”). The Stock Agreement, which has a term of 30 months, provides for the future funding of up to $8.0 million from sales of our common stock to Fusion on a when and if needed basis as determined by us in our sole discretion. In consideration for entering into this Stock Agreement, on October 10, 2008, we issued to Fusion 17,500 shares of our common stock (valued at $14,700 on the date of issuance) and paid $17,500 as a due diligence expense reimbursement. In addition, on November 5, 2008, we issued to Fusion 400,000 shares of our common stock (valued at $288,000 on the date of issuance) as a commitment fee. Concurrently with entering into the Stock Agreement, we entered into a registration rights agreement with Fusion. Under the registration rights agreement, we agreed to file a registration statement with the SEC covering the 417,500 shares that have already been issued to Fusion and at least 3.0 million shares that may be issued to Fusion under the Stock Agreement. Presently, we expect to sell no more than the initial 3.0 million shares to Fusion during the term of this Stock Agreement. The Company filed a registration statement on Form S-1 on November 28, 2008 and on February 5, 2009 the registration statement became effective and on April 28, 2009, we filed Post Effective Amendment No 1 to the registration statement which became effective on May 8, 2009.

Under the Stock Agreement we have the right to sell to Fusion shares of our common stock from time to time in amounts between $50,000 and $1.0 million, depending on the market price of our common stock. The purchase price of the shares related to any future funding under the Stock Agreement will be based on the prevailing market prices of our stock at the time of such sales without any fixed discount, and the Company will control the timing and amount of any sales of shares to Fusion. Fusion shall not have the right or the obligation to purchase any shares of our common stock on any business day that the price of our common stock is below $0.45 per share. The Stock Agreement may be terminated by us at any time at our discretion without any cost to us. There are no negative covenants, restrictions on future funding from other sources, penalties, further fees or liquidated damages in the agreement.

Given our current liquidity position from cash on hand and our availability under our Credit Facility with CapitalSource, we have no immediate plans to issue common stock under the Stock Agreement. If and when we do elect to sell shares to Fusion under this agreement, we expect to do so opportunistically and only under conditions deemed favorable by the Company. Any proceeds received by the Company from sales under the Stock Agreement will be used for general corporate purposes, working capital, and/or for expansion activities.

NOTE D — CAPITAL LEASE TRANSACTIONS

Wells Fargo Lease Agreement

On January 14, 2010, we entered into Lease Supplement No. 2 for $424,000 which was used to acquire laboratory equipment. Supplement No. 2, which was accounted for as a capital lease, has a term of 60 months with monthly payments of $8,628 and a $1 final purchase payment at termination.

After entering into Supplement No. 2 on January 14, 2010, we have approximately $61,000 available for further advances under the Wells Fargo Lease.

SunTrust Lease Agreement

On January 19, 2010, we entered into Lease Schedule No. 2 for $290,000 which was used to fund laboratory equipment and furniture and fixtures. Schedule 2, which was accounted for as a capital lease, has a term of 60 months with monthly payments of $5,704 and a $1 final purchase payment at termination.

NOTE E — RELATED PARTY TRANSACTIONS

Consulting Agreements

NEOGENOMICS, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
AS OF MARCH 31, 2010

During the three months ended March 31, 2010 and 2009, Steven C. Jones, a director of the Company, earned approximately $67,000 and $56,000, respectively, for various consulting work performed in connection with his duties as Executive Vice President of Finance or Acting Principal Financial Officer.

During the three months ended March 31, 2010 and 2009, George O'Leary, a director of the Company, earned approximately $0 and $9,500, respectively, for various consulting work performed for the Company.

Laboratory Information System

On March 11, 2005, we entered into an agreement with HCSS, LLC and eTelenext, Inc. to enable NeoGenomics to use 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, a member of our Board of Directors. George O'Leary, a member of our Board of Directors is Chief Financial Officer of HCSS, LLC.

On June 18, 2009, we entered into a Software Development, License and Support Agreement with HCSS, LLC and eTelenext, Inc. to upgrade the Company's laboratory information system to APvX. The estimated costs for the development and migration phase are anticipated to be approximately $75,000 and are expected to be completed in May 2010. This agreement has an initial term of five years from the date of acceptance and calls for monthly fees of $8,000-$12,000 during the term.

During 2010, eTelenext and HCSS were merged to form PathCenter, Inc. Dr. Michael T. Dent and Mr. George O'Leary have beneficial ownership of 12.2% and 4.6%, respectively of PathCenter, Inc.

For the three months ended March 31, 2010 and 2009, eTelenext/HCSS earned approximately $69,000 and $38,000 respectively.

Gulf Pointe Capital Lease Agreement

On September 30, 2008, the Company entered into a master lease agreement (the "Master Lease") with Gulf Pointe Capital, LLC ("Gulf Pointe") which allows us to obtain lease capital from time to time up to an aggregate of $130,000 of lease financing. The terms under this lease are consistent with the terms of our other lease arrangements. Three members of our Board of Directors Steven Jones, Peter Petersen and Marvin Jaffe, are affiliated with Gulf Pointe and recused themselves from both sides of all negotiations concerning this transaction. In consideration for entering into the Master Lease with Gulf Pointe, the Company issued a warrant to purchase 32,475 shares of common stock to Gulf Pointe with an exercise price of $1.08 per share and a five year term. Such warrant vests 25% on issuance and then on a pro rata basis as amounts are drawn under the Master Lease. The warrant was valued at approximately $11,000 using the Black-Scholes option pricing model, and the warrant cost is being expensed as it vests. At the end of the term of any lease schedule under the Master Lease, the Company's options are as follows: (a) purchase not less than all of the equipment for its then fair market value not to exceed 15% of the original equipment cost, (b) extend the lease term for a minimum of six months, or (c) return not less than all the equipment at the conclusion of the lease term. On September 30, 2008, we also entered into the first lease schedule under the Master Lease which provided for the sale/leaseback of approximately $130,000 of used laboratory equipment ("Lease Schedule No. 1"). Lease Schedule No. 1 has a 30 month term and a lease rate factor of 0.0397/month, which equates to monthly payments of $5,155 during the term.

On February 9, 2009, we amended our Master Lease with Gulf Pointe to increase the maximum size of the facility to $250,000. As part of this amendment, we terminated the original warrant agreement, dated September 30, 2008, and replaced it with a new warrant to purchase 83,333 shares of our common stock. Such new warrant has a five year term, an exercise price of $0.75 per share and the same vesting schedule as the original warrant. The replacement warrant was valued using the Black-Scholes option pricing model and the value did not materially differ from the valuation of the original warrant it replaced. On February 9, 2009, we also entered into a second schedule under the Master Lease for the sale/leaseback of approximately $118,000 of used laboratory equipment ("Lease Schedule No. 2"). Lease Schedule No. 2 has a 30 month term at the same lease rate factor per month as Lease Schedule No. 1, which equates to monthly payments of $4,690 during the term.

NEOGENOMICS, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
AS OF MARCH 31, 2010

NOTE F — SUBSEQUENT EVENTS

SunTrust Lease Agreement

On April 13, 2010, the Company entered into Lease Schedule No. 3 of the SunTrust lease for approximately $249,000 which was funded to several vendors for lab equipment and computer hardware. Schedule 3 has a term of 60 months with monthly payments of approximately $4,900 and a $1.00 final purchase payment at termination. Schedule No. 3 is being accounted for as a capital lease.

After entering into Lease Schedule No. 3 on January 19, 2010, we have approximately $533,000 available for further advances under the SunTrust Lease.

Amended and Restated Revolving Credit and Security Agreement with Capital Source Bank

On April 26, 2010, the Parent Company, NeoGenomics Laboratories, Inc., the wholly-owned subsidiary of the Parent Company (“Borrower”), and CapitalSource entered into an Amended and Restated Revolving Credit and Security Agreement (the “Amended and Restated Credit Agreement”). The Amended and Restated Credit Agreement amended and restated the Revolving Credit and Security Agreement dated February 1, 2008, as amended, among the Parent Company, Borrower and CapitalSource (the “Original Credit Agreement”). The terms of the Amended and Restated Credit Agreement and the Original Credit Agreement are substantially similar except that the Amended and Restated Credit Agreement, among other things, (i) increases the maximum principal amount of the revolving credit facility from $3,000,000 to $5,000,000, (ii) provides that the term of the Amended and Restated Credit Agreement shall end on February 1, 2013, (iii) increases the amount of the collateral management fee and unused line fees paid by Borrower to CapitalSource, (iv) modifies the definitions of “Minimum Termination Fee” and “Permitted Indebtedness”, (v) provides that the Borrower must maintain a minimum outstanding principal balance under the revolving facility of at least $2,000,000, (vi) increases the interest rate to LIBOR plus 4.25% (provided that LIBOR shall not be less than 2.0%) and (vii) revises certain covenants and representations and warranties. Borrower paid CapitalSource a commitment fee of $33,500 in connection with the execution of the Amended and Restated Credit Agreement (CapitalSource credited $25,000 of the amendment fee previously paid by the Borrower in connection with the March 26, 2010 amendment of the Original Credit Agreement towards the commitment fee).

END OF FINANCIAL STATEMENTS.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of NeoGenomics, Inc.:

We have audited the accompanying consolidated balance sheets of NeoGenomics, Inc. (the “Company”), as of December 31, 2009 and 2008, and the related consolidated statements of operations, stockholders’ equity and cash flows for the years then ended. 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 audits 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, 2009 and 2008, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

/s/ Kingery & Crouse, P.A
Certified Public Accountants
Tampa, FL
March 26, 2010

NEOGENOMICS, INC.

CONSOLIDATED BALANCE SHEETS AS OF DECEMBER 31, 2009 and 2008

	2009	2008
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 1,631,069	$ 468,171
Restricted Cash	1,000,000	-
Accounts receivable (net of allowance for doubtful accounts of $589,012 and $358,642, respectively)	4,632,219	2,913,531
Inventories	601,802	491,459
Other current assets	655,046	482,408
Total current assets	8,520,136	4,355,569
PROPERTY AND EQUIPMENT (net of accumulated depreciation of $2,786,704 and $1,602,594 respectively)	4,339,560	2,875,297
OTHER ASSETS	85,604	64,509
TOTAL ASSETS	$ 12,945,300	$ 7,295,375
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	$ 1,968,884	$ 1,512,427
Accrued compensation	1,308,160	736,552
Accrued expenses and other liabilities	464,830	358,265
Short-term portion of equipment capital leases	1,482,326	636,900
Revolving credit line	552,033	1,146,850
Total current liabilities	5,776,233	4,390,994
LONG TERM LIABILITIES		
Long-term portion of equipment capital leases	1,525,728	1,403,271
TOTAL LIABILITIES	7,301,961	5,794,265
Commitments and contingencies		
STOCKHOLDERS' EQUITY		
Common stock, $.001 par value, (100,000,000 shares authorized; 37,185,078 and 32,117,008 shares issued and outstanding at December 31, 2009 and 2008, respectively)	37,185	32,117
Additional paid-in capital	23,761,784	17,381,810
Accumulated deficit	(18,155,630)	(15,912,817)
Total stockholders' equity	5,643,339	1,501,110
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 12,945,300	$ 7,295,375

See notes to consolidated financial statements.

NEOGENOMICS, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

		2009		2008
NET REVENUE	$	29,469,054	$	20,015,319
COST OF REVENUE		14,254,227		9,353,852
GROSS MARGIN		15,214,827		10,661,467
OPERATING EXPENSES				
General and administrative		10,056,944		8,178,953
Sales and marketing		6,885,396		3,366,503
Total operating expenses		16,942,340		11,545,456
INCOME / (LOSS) FROM OPERATIONS		(1,727,513)		(883,989)
OTHER INCOME / (EXPENSE):				
Other income		17,091		9,926
Interest expense		(532,391)		(308,523)
Loss on investment		-		(200,000)
Other income / (expense) – net		(515,300)		(498,597)
NET LOSS	$	(2,242,813)	$	(1,382,586)
NET LOSS PER SHARE - Basic and Diluted	$	(0.06)	$	(0.04)
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING – Basic and Diluted		34,638,502		31,506,824

See notes to consolidated financial statements.

NEOGENOMICS, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Accumulated Deficit	Total
Balances, December 31, 2007	31,391,660	$ 31,391	$ 16,820,954	$ (14,530,231)	$ 2,322,114
Common stock issuances for cash	49,260	49	45,094	-	45,143
Transaction fees and expenses	-	-	(8,411)	-	(8,411)
Stock compensation expense - warrants	-	-	132,584	-	132,584
Exercise of stock options	88,500	89	23,656	-	23,745
Shares issued to Fusion Capital, net of issuance costs (Note I)	417,500	418	(48,266)	-	(47,848)
Shares issued for registration penalties	170,088	170	170,019	-	170,189
Stock compensation expense	-	-	246,180	-	246,180
Net loss	-	-	-	(1,382,586)	(1,382,586)
Balances, December 31, 2008	32,117,008	32,117	17,381,810	(15,912,817)	1,501,110
Common stock issuances to Abbott	3,500,000	3,500	4,763,500	-	4,767,000
Common stock issuance ESPP plan	68,672	69	86,721	-	86,790
Transaction fees and expenses	-	-	(236,576)	-	(236,576)
Stock compensation expense - warrants	-	-	67,738	-	67,738
Exercise of stock options	55,215	55	3,055	-	3,110
Exercise of warrants	519,183	519	637,510	-	638,029
Common stock issuance to CEO for cash	625,000	625	499,375	-	500,000
Shares issued for purchase of assets	300,000	300	185,700	-	186,000
Stock compensation expense - options	-	-	372,951	-	372,951

Net loss	-		-		-		(2,242,813)		(2,242,813)
Balances, December 31, 2009	37,185,078	$	37,185	$	23,761,784	$	(18,155,630)	$	5,643,339

See notes to consolidated financial statements.

NEOGENOMICS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

		2009		2008
CASH FLOWS FROM OPERATING ACTIVITIES				
Net Loss	$	(2,242,813)	$	(1,382,586)
Adjustments to reconcile net loss to net cash used in operating activities:				
Depreciation and amortization		1,184,109		740,564
Loss on investments		-		200,000
Amortization of debt issue costs		68,649		54,006
Stock based compensation		372,951		246,180
Non-cash consulting expenses		67,738		132,584
Other non-cash expenses		-		8,862
Provision for bad debts		2,154,567		1,789,577
Changes in assets and liabilities, net:				
(Increase) decrease in accounts receivable, net of write-offs		(3,873,255)		(1,466,357)
(Increase) decrease in inventories		(110,343)		(186,709)
(Increase) decrease in prepaid expenses		(195,793)		(63,057)
(Increase) decrease in other current assets		(21,094)		(3,934)
Increase (decrease) in legal contingency		-		(375,000)
Increase (decrease) in accounts payable and other liabilities		1,094,867		167,564
NET CASH USED IN OPERATING ACTIVITIES		(1,500,417)		(138,306)
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchases of property and equipment		(963,740)		(501,781)
NET CASH USED IN INVESTING ACTIVITIES		(963,740)		(501,781)
CASH FLOWS FROM FINANCING ACTIVITIES				
Advances (repayments) from/to revolving credit facility		(594,818)		1,146,850
Restricted cash		(1,000,000)		-
Repayment of capital lease obligations		(809,599)		(377,641)
Proceeds from issuance of capital lease on owned assets		273,119		67,999
Issuance of common stock and warrants for cash , net of transaction expenses		5,758,353		60,477
NET CASH PROVIDED BY FINANCING ACTIVITIES		3,627,055		897,685
NET CHANGE IN CASH AND CASH EQUIVALENTS		1,162,898		257,598
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR		468,171		210,573
CASH AND CASH EQUIVALENTS, END OF YEAR	$	1,631,069	$	468,171
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION				
Interest paid	$	463,742	$	256,323
Equipment leased under capital leases	$	1,777,484	$	1,207,863
Common stock issued for the purchase of assets	$	186,000	$	-
Income taxes paid	$	-	$	-

See notes to consolidated financial statements.

NEOGENOMICS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2009 and 2008

NOTE A – NATURE OF BUSINESS AND BASIS OF PRESENTATION

NeoGenomics, Inc., a Nevada Company, was formed in 1998 under the name of American Communications Enterprises, Inc. ("ACE", the "Parent", or the "Parent Company").

NeoGenomics Laboratories, Inc., a Florida company ("NEO", "NeoGenomics" or "Subsidiary") was formed in June 2001, and agreed to be acquired by ACE in a reverse acquisition in November 2001. On March 3, 2009, we changed the name of the Subsidiary from NeoGenomics Inc, to NeoGenomics Laboratories, Inc. NeoGenomics operates as a certified "high complexity" clinical laboratory in accordance with the federal government's Clinical Laboratory Improvement Amendments of 1988 ("CLIA"), and is dedicated to the delivery of clinical diagnostic services to pathologists, oncologists, urologists, hospitals, and other laboratories throughout the United States.

ACE succeeded to NEO's name in January, 2002, and NeoGenomics remains a wholly-owned subsidiary of the Parent Company. (NEO and ACE are collectively referred to as "we", "us", "our" or the "Company").

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.

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

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

FASB Accounting Standards Codification

In June 2009, the FASB issued the FASB Accounting Standards Codification (the "Codification"), which replaced all existing FASB accounting and reporting standards. Effective for financial statements for interim and annual periods ending after September 15, 2009, the Codification is the single source of authoritative U.S. generally accepted accounting principles (GAAP) for non-governmental entities. Rules and interpretive releases of the Securities and Exchange Commission (SEC) under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants and are referenced in the Codification. References to the Codification are identified by their Accounting Standards Codification ("ASC") Topic number and, as appropriate, their Subtopic, Section and Subsection number. Effective July 1, 2009, changes to authoritative U.S. GAAP are communicated through Accounting Standards Updates ("ASU"). Implementation of the Codification had no effect on the Company's financial statements, except for changes in the manner in which authoritative guidance is now referenced.

Use of Estimates

The Company prepares its consolidated financial statements in conformity with accounting principles generally accepted in the United States of America. These principles require management to make estimates, judgments and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, together with amounts disclosed in the related notes to the consolidated financial statements. Actual results and outcomes may differ from management's estimates, judgments and assumptions. Significant estimates, judgments and assumptions used in these consolidated financial statements include, but are not limited to, those related to revenues, accounts receivable and related reserves, contingencies, useful lives and recovery of long-term assets, income and other taxes, and the fair value of stock-based compensation. These estimates, judgments, and assumptions are reviewed periodically and the effects of material revisions in estimates are reflected in the consolidated financial statements prospectively from the date of the change in estimate.

Revenue Recognition

The Company recognizes revenues in accordance with the Securities and Exchange Commission's (the "Commission") Staff Accounting Bulletin Topic 13.A.1 (ASC 605-10-S99-1)No. 104, "Revenue Recognition", when (a) the price is fixed or determinable, (b) persuasive evidence of an arrangement exists, (c) the service is performed and (d) collectability of the resulting receivable is reasonably assured.

NEOGENOMICS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2009 and 2008 (Continued)

The Company's specialized diagnostic services are performed based on a written test requisition form and revenues are recognized once the diagnostic services have been performed, the results have been delivered to the ordering physician, the payor has been identified and eligibility and insurance have been verified. These diagnostic services are billed to various payors, including Medicare, commercial insurance companies, other directly billed healthcare institutions such as hospitals and clinics, and individuals. The Company reports revenues from contracted payors, including Medicare, certain insurance companies and certain healthcare institutions, based on the contractual rate, or in the case of Medicare, published fee schedules. The Company reports revenues from non-contracted payors, including certain insurance companies and individuals, based on the amount expected to be collected. The difference between the amount billed and the amount expected to be collected from non-contracted payors is recorded as a contractual allowance to arrive at the reported revenues. The expected revenues from non-contracted payors are based on the historical collection experience of each payor or payor group, as appropriate. In each reporting period, the Company reviews its historical collection experience for non-contracted payors and adjusts its expected revenues for current and subsequent periods accordingly. As a result of the economic climate in the United States, we have used shorter and more current time horizon's in analyzing historical experience.

Cost of Revenue

Cost of revenue consists primarily of lab related materials and supplies, salaries related to laboratory personnel, transportation of patient samples to and from our laboratories, allocated facility costs, and depreciation of equipment used to deliver the Company's services.

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable are reported at realizable value, net of allowance for doubtful accounts (the "Allowance"), which is estimated and recorded in the period the related revenue is recorded based on the historical collection experience for each type of payor. In addition, the Allowance is adjusted periodically, based upon an evaluation of historical collection experience with specific payors, payor types, and other relevant factors, including regularly assessing the state of our billing operations in order to identify issues which may impact the collectability of receivables or reserve estimates. Revisions to the Allowance are recorded as an adjustment to bad debt expense within general and administrative expenses. After appropriate collection efforts have been exhausted, specific receivables deemed to be uncollectible are charged against the Allowance in the period they are deemed uncollectible. Recoveries of receivables previously written-off are recorded as credits to the Allowance.

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.

Fair Value of Financial Instruments and Concentrations of Credit Risk

The carrying value of cash and cash equivalents, restricted cash, accounts receivable, accounts payable, accrued expenses and other liabilities, amounts outstanding under our revolving credit facility, and other current assets and liabilities are considered reasonable estimates of their respective fair values due to their short-term nature. The Company maintains its cash and cash equivalents with domestic financial institutions that the Company believes to be of high credit standing. The Company believes that, as of December 31, 2009, its concentration of credit risk related to cash and cash equivalents was not significant. The carrying value of the Company's long-term capital lease obligations approximates its fair value based on the current market conditions for similar instruments.

Concentrations of credit risk with respect to revenue and accounts receivable are primarily limited to certain clients to whom the Company provides a significant volume of its services, and to specific payors of our services such as Medicare and individual insurance companies. The Company's client base consists of a large number of geographically dispersed clients diversified across various customer types. The Company continues to focus its sales efforts to decrease the dependency on any given source of revenue and decrease its credit risk from any one large client or payor type, and these efforts decrease our credit risk. For the years ended December 31, 2009 and 2008, one client with multiple locations accounted for 10% and 22% respectively, of total revenue. As a result of this one customer bringing certain tests in-house, this client represented less than 5% of our fourth quarter 2009 revenue. All others were less than 5% of total revenue individually.

NEOGENOMICS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2009 and 2008 (Continued)

The Company orders the majority of its FISH probes from one vendor and as a result of their dominance of that marketplace and the absence of any competitive alternatives, if they were to have a disruption and not have inventory available it could have a material effect on our business. This risk cannot be completely offset due to the fact that they have patent protection which limits other vendors from supplying these probes.

Inventories

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

Property and Equipment

Property and equipment are recorded at cost, net of accumulated depreciation and amortization. Property and equipment generally includes purchases of items with a cost greater than $1,000 and a useful life greater than one year. Depreciation and amortization are computed on a straight line basis over the estimated useful lives of the assets.

Leasehold improvements are amortized over the related lease terms or their estimated useful lives. Property and equipment acquired under capital leases are depreciated over the related lease terms or the useful lives of the assets. The Company periodically reviews the estimated useful lives of property and equipment. Changes to the estimated useful lives are recorded prospectively from the date of the change. Upon retirement or sale, the cost of the assets disposed of and the related accumulated depreciation are removed from the accounts and any resulting gain or loss is included in income (loss) from operations. Repairs and maintenance costs are expensed as incurred.

Income Taxes

We compute income taxes in accordance with ASC Topic 740 Income Taxes. Under ASC-740, 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 property and equipment as well as impairment losses and the timing of recognition of bad debts.

Stock-Based Compensation

The Company accounts for stock-based compensation in accordance with FASB ASC Topic 718 Compensation – Stock Compensation. ASC 718 requires recognizing compensation costs for all share-based payment awards made to employees and directors based upon the awards' grant-date fair value. The standard covers employee stock options, restricted stock, and other equity awards.

For stock options, the Company uses a trinomial lattice option-pricing model to estimate the grant-date fair value of stock option awards, and recognizes compensation cost on a straight-line basis over the awards' vesting periods. The Company estimates an expected forfeiture rate, which is factored into the determination of the Company's periodic expense.

Tax Effects of Stock-Based Compensation

We will only recognize a tax benefit from windfall tax deductions for stock-based awards in additional paid-in capital if an incremental tax benefit is realized after all other tax attributes currently available have been utilized.

NEOGENOMICS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2009 and 2008 (Continued)

Net Loss Per Common Share

We compute loss per share in accordance with ASC Topic 260 Earnings Per Share. Under the provisions of ASC 260, 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 equivalent shares outstanding during the period. During the years ended December 31, 2009 and 2008, we reported net loss per share and, accordingly, common equivalent shares outstanding as of December 31, 2009 and 2008, which consisted of employee stock options and warrants issued to consultants, providers of financing to the Company and others, were excluded from diluted net loss per common share calculations as of such dates because they were anti-dilutive. As a result, basic and diluted loss per share were equivalent.

Recent Pronouncements

The following accounting pronouncements were adopted by the Company during 2009:

On July 1, 2009, the Company adopted the provisions of ASU 2009-05, Fair Value Measurements and Disclosures (Topic 820)—Measuring Liabilities at Fair Value. It had no impact on the Company's financial condition or results of operations. Under this standard, companies determining the fair value of a liability may use the perspective of an investor that holds the related obligation as an asset. This topic addresses practice difficulties caused by the tension between fair-value measurements based on the price that would be paid to transfer a liability to a new obligor and contractual or legal requirements that prevent such transfers from taking place. No new fair-value measurements are required by the standard.

In May 2009, the Financial Accounting Standards Board issued Topic 855, Subsequent Events. This topic addresses accounting and disclosure requirements related to subsequent events. It requires management to evaluate subsequent events through the date the financial statements are either issued or available to be issued, depending on the company's expectation of whether it will widely distribute its financial statements to its shareholders and other financial statement users. Companies are required to disclose the date through which subsequent events have been evaluated – see below.

The Company has determined that all other recently issued accounting standards will not have a material impact on its Consolidated Financial Statements, or do not apply to its operations.

NOTE C – LIQUIDITY

Our consolidated financial statements are prepared using accounting principles generally accepted in the United States of America applicable to a going concern, which contemplates the realization of assets and liquidation of liabilities in the normal course of business. On November 5, 2008, we entered into a common stock purchase agreement with Fusion Capital Fund II, LLC . The agreement, which has a term of 30 months, provides for the future funding of up to $8.0 million from sales of our common stock to Fusion on a when and if needed basis as determined by us in our sole discretion (see Note J). On February 1, 2008, we entered into a revolving credit facility with CapitalSource Finance, LLC, which allows us to borrow up to $3,000,000 based on a formula which is tied to our eligible accounts receivable that are aged less than 150 days (see Note H). We believe we have adequate resources to meet our operating commitments for the next year 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.

NEOGENOMICS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2009 and 2008 (Continued)

NOTE D – PROPERTY AND EQUIPMENT, NET

Property and equipment consisted of the following at December 31, 2009 and 2008:

	2009	2008	Estimated Useful Lives in Years
Equipment	$ 4,991,886	$ 3,450,449	3-7
Leasehold improvements	618,876	111,114	3-5
Furniture & fixtures	351,832	247,366	7
Computer hardware	486,852	276,520	3
Computer software	541,948	382,154	3
Assets not yet placed in service	134,870	10,288	-
Subtotal	7,126,264	4,477,891	
Less accumulated depreciation and amortization	(2,786,704)	(1,602,594)	
Property and equipment, net	$ 4,339,560	$ 2,875,297	

Depreciation and amortization expense on property and equipment, including leased assets, for the years ended December 31, 2009 and 2008, was $1,184,109 and $740,564, respectively.

Property and equipment under capital leases, included above, consists of the following at December 31, 2009 and 2008:

	2009	2008
Equipment	$ 3,413,595	$ 2,273,864
Furniture & fixtures	159,864	106,119
Computer hardware	298,305	120,821
Computer software	225,644	142,814
Leasehold Improvements	233,386	-
Assets not yet placed in service	84,347	-
Subtotal	4,415,141	2,643,618
Less accumulated depreciation and amortization	(1,441,234)	(656,797)
Property and equipment under capital leases, net	$ 2,973,907	$ 1,986,821

NOTE E – INCOME TAXES

We recognized losses for financial reporting purposes for the years ended December 31, 2009 and 2008, in the accompanying consolidated statements of operations. Accordingly, no provisions for income taxes and/or deferred income taxes payable have been provided in the accompanying consolidated financial statements.

At December 31, 2009 and 2008, we had net operating loss carryforwards of approximately $9,888,662 and $7,520,000, respectively. The significant difference between this amount and our accumulated deficit 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 ending December 31, 2028. 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 ASC Topic 740. Our valuation allowance increased by approximately $1,350,000 during the year ended December 31, 2009.

NEOGENOMICS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2009 and 2008 (Continued)

At December 31, 2009 and 2008, our current and non-current deferred income tax assets (assuming an effective income tax rate of approximately 40.5%, which includes 35% for federal taxes and 5.5% for state taxes) consisted of the following:

		2009		2008
Net current deferred income tax asset:				
Allowance for doubtful accounts	$	227,200	$	138,300
Less valuation allowance		(227,200)		(138,300)
Total	$	-	$	-

Net non-current deferred income tax asset:				
Net operating loss carryforwards	$	3,856,600	$	2,933,000
Accumulated depreciation and impairment		(543,000)		(881,000)
Subtotal		3,313,600		2,052,000
Less valuation allowance		(3,313,600)		(2,052,000)
Total	$	-	$	-

NOTE F – EMPLOYEE STOCK OPTIONS, STOCK PURCHASE PLAN AND WARRANTS

Stock Option Plan

On March 3, 2009, the Company's Board of Directors approved the Amended and Restated Equity Incentive Plan (the "Amended Plan"), which amended and restated the Equity Incentive Plan, originally effective as of October 14, 2003, and previously amended and restated effective as of October 31, 2006. The Amended Plan allows for the award of equity incentives, including stock options, stock appreciation rights, restricted stock awards, stock bonus awards, deferred stock awards, and other stock-based awards to certain employees, directors, or officers of, or key advisers or consultants to, the Company or its subsidiaries. The Amended Plan provides that the maximum aggregate number of shares of the Company's common stock reserved and available for issuance under the Amended Plan is 6,500,000 and that the Amended Plan will expire on March 3, 2019.

As of December 31, 2009, option and stock awards for 5,161,652 shares were outstanding, including 350,000 options issued outside of the Amended Plan to Robert Gasparini, the Company's President and Chief Science Officer, and option and stock awards for 641,264 shares had been exercised, leaving a total of 1,047,084 shares available for future option and stock awards. Options typically expire after 5 or 10 years and generally vest over 3 or 4 years, but each grant's expiration, vesting and exercise price provisions are determined at the time the awards are granted by the Compensation Committee of the Board of Directors or by the Chairman and Chief Executive Officer by virtue of authority delegated to him by the Compensation Committee.

We account for option and stock awards under the Amended Plan in accordance with ASC Topic 718 Compensation – Stock Compensation, which requires the measurement and recognition of compensation expense in the Company's statement of operations for all share-based option and stock awards, based on estimated grant-date fair values.

ASC Topic 718 requires us to estimate the fair value of stock-based option awards on the date of grant using an option-pricing model. The grant-date fair value of the award is recognized as expense over the requisite service period using the straight-line method. In accordance with ASC Topic 718, the estimated stock-based compensation expense to be recognized is reduced by an estimate of the annualized rate of stock option forfeitures.

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NEOGENOMICS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2009 and 2008 (Continued)

We estimate the grant-date fair value of stock-based option awards using a trinomial lattice model. This model is affected by our stock price on the date of the grant as well as assumptions regarding a number of highly complex and subjective variables. These variables include the expected term of the option, expected risk-free rates of return, the expected volatility of our common stock, and expected dividend yield, each of which is more fully described below. The assumptions for expected term and expected volatility are the two assumptions that significantly affect the grant date fair value.

Expected Term: The expected term of an option is the period of time that the option is expected to be outstanding. The average expected term is determined using a trinomial lattice simulation model.

Risk-free Interest Rate: We base the risk-free interest rate used in the trinomial lattice valuation method on the implied yield at the grant date of the U.S. Treasury zero-coupon issue with an equivalent term to the stock-based award being valued. Where the expected term of a stock-based award does not correspond with the term for which a zero coupon interest rate is quoted, we use the nearest interest rate from the available maturities.

Expected Stock Price Volatility: Effective January 1, 2006 until December 31, 2008, we evaluated the assumptions used to estimate volatility and determined that, under SAB 107, we should use a blended average of our volatility and the volatility of certain peer companies. We believe that the use of this blended average peer volatility is more reflective of market conditions and a better indicator of our expected volatility due to the limited trading history available for our Company since its last change of control, prior to which we operated under a different business model. Effective January 1, 2009 since we had sufficient historical data since our last change of control we began to use our own historical weekly volatility because that was more reflective of market conditions.

Dividend Yield: Because we have never paid a dividend and do not expect to begin doing so in the foreseeable future, we have assumed a 0% dividend yield in valuing our stock-based awards.

The fair value of stock option awards granted during the years ended December 31, 2009 and 2008 was estimated as of the grant date using a trinomial lattice model with the following weighted average assumptions:

	2009	2008
Expected term (in years)	4.1	3.5
Risk-free interest rate (%)	1.9%	2.0%
Expected volatility (%)	59%	42%
Dividend yield (%)	0%	0%
Weighted average fair value/share at grant date	$ 0.42	$ 0.22

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

	Number Of Shares	Weighted Average Exercise Price
Outstanding at December 31, 2007	2,796,044	$ 0.81

Granted	1,405,000	0.87
Exercised	(88,500)	0.27
Canceled	(388,122)	1.32
Outstanding at December 31, 2008	3,724,422	0.79
Granted	2,371,598	1.00
Exercised	(55,215)	0.26
Canceled	(879,153)	1.01
Outstanding at December 31, 2009	5,161,652	0.86
Exercisable at December 31, 2009	2,982,343	0.73

NEOGENOMICS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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As described in Note G, on March 16, 2009, the Company entered into an employment agreement with Douglas M. VanOort (the "Employment Agreement"). The Employment Agreement provided for the grant to Mr. VanOort of an option under the Amended Plan to purchase 1,000,000 shares of the Company's common stock, at an exercise price of $0.80 per share (the closing market price of the company's common stock on March 13, 2009, the preceding business day). 500,000 shares of common stock subject to the option will vest according to the following schedule (i) 200,000 shares will vest on March 16, 2010 (provided that if Mr. VanOort's employment is terminated by the Company without "cause" then the pro rata portion of such 200,000 shares up until the date of termination shall vest); (ii) 12,500 shares will vest each month beginning on April 16, 2010 until March 16, 2011; (iii) 8,000 shares will vest each month beginning on April 16, 2011 until March 16, 2012 and (iv) 4,500 shares will vest each month beginning on April 16, 2012 until March 16, 2013. 500,000 shares of common stock subject to the option will vest based on the achievement of certain performance metrics by the Company. Any unvested portion of the option described above will vest in the event of a change in control of the Company.

The following table summarizes information about our options outstanding at December 31, 2009:

	Options Outstanding, Expected to Vest			Options Exercisable		
Range of Exercise Prices ($)	Number Outstanding	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price
0.00 – 0.30	996,000	4.8	$ 0.25	996,000	4.8	$ 0.25
0.31 – 0.46	59,500	5.4	0.35	59,500	5.4	0.35
0.47 – 0.61	113,500	5.8	0.50	113,500	5.8	0.50
0.62 – 0.83	2,178,596	5.8	0.77	888,330	5.7	0.75
0.84 – 1.08	478,996	4.2	0.99	330,039	4.1	0.97
1.09 – 1.47	612,163	5.3	1.36	348,331	6.0	1.40
1.48 – 1.84	722,897	5.5	1.58	246,643	6.7	1.53
	5,161,652	5.4	0.86	2,982,343	5.3	0.73

As of December 31, 2009, the aggregate intrinsic value of all stock options outstanding and expected to vest was approximately $3,360,000 and the aggregate intrinsic value of currently exercisable stock options was approximately $2,308,000. The intrinsic value of each option share is the difference between the fair market value of NeoGenomics common stock and the exercise price of such option share to the extent it is "in-the-money". Aggregate intrinsic value represents the value that would have been received by the holders of in-the-money options had they exercised their options on the last trading day of the year and sold the underlying shares at the closing stock price on such day. The intrinsic value calculation is based on the $1.50 closing stock price of NeoGenomics Common Stock on December 31, 2009, the last trading day of 2009. The total number of in-the-money options outstanding and exercisable as of December 31, 2009 was 2,785,700.

The total intrinsic value of options exercised during the years ended December 31, 2009 and 2008 was approximately $80,000 and $44,000, respectively. Intrinsic value of exercised shares is the total value of such shares on the date of exercise less the cash received from the option holder to exercise the options. The total cash proceeds received from the exercise of stock options was approximately $3,110 and $24,000 for the years ended December 31, 2009 and 2008, respectively.

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The total fair value of options granted during the years ended December 31, 2009 and 2008 was approximately $986,000 and $310,000, respectively. The total fair value of option shares vested during the years ended December 31, 2009 and 2008 was approximately $233,000 and $220,000.

Stock compensation cost recognized for the years ended December 31, 2009 and 2008 was approximately $373,000 and $246,000, respectively. We will only recognize a tax benefit from windfall tax deductions for stock-based awards in additional paid-in capital if an incremental tax benefit is realized after all other tax attributes currently available have been utilized. As of December 31, 2009, there was approximately $639,000 of total unrecognized stock-based compensation cost, net of expected forfeitures, related to unvested stock options granted under the Amended Plan. This cost is expected to be recognized over a weighted-average period of 1.7 years.

Employee Stock Purchase Plan

Effective January 1, 2007, the Company began sponsoring an Employee Stock Purchase Plan ("ESPP"), under which eligible employees may purchase Common Stock, by means of limited payroll deductions, at a 5% discount from the fair market value of the Common Stock as of specific dates. In accordance with ASC Topic 718-50 Compensation – Stock Compensation – Employee Share Purchase Plans, the ESPP is considered non-compensatory and does not require the recognition of compensation cost because the discount offered to employees does not exceed 5%. Shares issued pursuant to this plan were 68,443 and 49,260 for the period ended December 31, 2009 and 2008, respectively.

Common Stock Warrants

From time to time, the company issues warrants to purchase its common stock. These warrants have been issued for consulting services, in connection with the company's credit facilities or in connection with sales of its common stock, and in connection with employment agreements or for compensation of directors. These warrants are valued using an option pricing model and using the volatility, market price, strike price, risk-free interest rate and dividend yield appropriate at the date the warrants were issued. Stock compensation cost recognized for the years ended December 31, 2009 and 2008 was approximately $68,000 and $133,000, respectively.

Warrant activity is summarized as follows:

	Shares	Weighted Average Exercise Price
Warrants outstanding, December 31, 2007	5,805,363	$ 0.59
Granted	32,475	1.08
Warrants outstanding, December 31, 2008	5,837,838	0.61
Granted	738,333	1.00
Exercised	(519,183)	1.27
Expired	(130,091)	1.35
Cancelled	(35,147)	1.08
Warrants outstanding, December 31, 2009	5,891,750	$ 0.59

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The following table summarizes information on warrants outstanding on December 31, 2009:

Number outstanding	Exercise price	Issued	Expire
2,500,000	$ 0.31	03/23/2005	01/20/2011
1,600,000	0.26	01/21/2006	01/20/2011
35,000	0.30	02/13/2006	02/12/2011
35,000	0.68	05/16/2006	05/15/2011
15,000	0.62	02/03/2009	02/03/2012
100,000	1.49	03/15/2007	03/13/2012
550,000	1.50	06/06/2007	06/05/2012
348,417	1.50	06/06/2007	06/05/2012
83,333	0.75	02/09/2009	02/08/2014
625,000	1.05	03/16/2009	03/15/2014
5,891,750	$ 0.59		

On February 3, 2009, in connection with consulting services rendered to the Company, we issued warrants to purchase 30,000 shares of common stock at $0.62 per share. Warrants for 15,000 shares were exercised prior to December 31, 2009.

As described in Note L, in connection with our lease facility with Gulf Pointe Capital, LLC, on February 9, 2009 we issued warrants to purchase 83,333 shares of common stock, which warrants replaced 32,475 warrants previously issued in connection with that facility.

As described in Note J, on March 16, 2009, the Company entered into an employment agreement with Douglas M. VanOort and in connection with that agreement also entered into a warrant agreement pursuant to which Mr. VanOort may purchase up to 625,000 shares of the Company's common stock at an exercise price of $1.05 per share. The warrants become exercisable in five tranches, with 20% of the warrants being exercisable immediately and a further 20% becoming exercisable on the first day on which the closing price per share of the Company's common stock has reached or exceeded, for 20 consecutive trading days, $3.00, $4.00, $5.00 and $6.00 per share, respectively. In the event of a change in control of the Company in which the consideration payable to each common stockholder of the Company in connection with such change in control has a deemed value of at least $4.00 per share, then the warrants will immediately become exercisable. In the event that Mr. VanOort resigns his employment with the Company or the Company terminates Mr. VanOort's employment for "cause" at any time prior to the time when all warrants are exercisable, then the rights under the warrant agreement with respect to the portion of the warrants not yet exercisable as of the date of termination will immediately terminate.

In August 2009, 419,153 of the 767,570 warrants originally issued in connection with the June 2007 sale of common stock were exercised and the Company received proceeds of $628,730.

During 2009, Mr. O'Leary exercised 100,000 warrants in a cash-less transaction per the terms of the agreements. The company issued 85,030 shares to settle this exercise.

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NOTE G – COMMITMENTS AND CONTINGENCIES

Operating Leases

The Company leases its laboratory and office facilities under non-cancelable operating leases. These operating leases expire at various dates through April 2012 and generally require the payment of real estate taxes, insurance, maintenance and operating costs. The Company has approximately 26,000 square feet of office and laboratory space at our corporate headquarters in Fort Myers, Florida. In addition, we maintain laboratory and office space in Irvine, California, Chatsworth California and Nashville, Tennessee.

The minimum aggregate future obligations under non-cancelable operating leases as of December 31, 2009 are as follows:

Years ending December 31,		
2010	$	906,818
2011		632,280
2012		115,708
2013		-
2014		-
Total minimum lease payments	$	1,654,806

Rent expense for the years ended December 31, 2009 and 2008 was $816,838 and $754,138, respectively and is included in costs of revenues and in general and administrative expenses, depending on the allocation of work space in each facility. Certain of the Company’s facility leases include rent escalation clauses. The Company normalizes rent expense on a straight-line basis over the term of the lease for known changes in lease payments over the life of the lease.

Purchase Commitments

The company had open purchase commitments with 2 vendors of laboratory equipment for approximately $500,000 of equipment at December 31, 2009. This equipment was delivered during 2010.

US Labs Settlement

On October 26, 2006, Accupath Diagnostics Laboratories, Inc. d/b/a US Labs, a California corporation (“US Labs”) filed a complaint in the Superior Court of the State of California for the County of Los Angeles (entitled Accupath Diagnostics Laboratories, Inc. v. NeoGenomics, Inc., et al., Case No. BC 360985) (the “Lawsuit”) against the Company and Robert Gasparini, as an individual, and certain other employees and non-employees of NeoGenomics (the “Defendants”) with respect to claims arising from discussions with current and former employees of US Labs. On March 18, 2008, we reached a preliminary agreement to settle US Labs' claims, and in accordance with ASC Topic 450 Contingencies, as of December 31, 2007 we accrued a $375,000 loss contingency, which consisted of $250,000 to provide for the Company's expected share of this settlement, and $125,000 to provide for the Company's share of the estimated legal fees up to the date of settlement.

On April 23, 2008, the Company and US Labs entered into a Settlement Agreement and Release (the "Settlement Agreement") whereby both parties agreed to settle and resolve all claims asserted in and arising out of the aforementioned lawsuit. Pursuant to the Settlement Agreement, the Defendants were required to pay $500,000 to US Labs, of which $250,000 was paid with funds from the Company's insurance carrier in May 2008 and the remaining $250,000 was paid by the Company in equal installments of $31,250 commencing on May 31, 2008. Under the terms of the Settlement Agreement, there were certain provisions agreed to in the event of default. As of December 31, 2008, the full settlement amount had been paid and no events of default had occurred.

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Private Placement of Common Stock and Registration Penalties

As of December 31, 2007, we had not been able to effectively complete the Registration Statement required to be filed in connection with our June 2007 private placement (the “Private Placement”) and pursuant to the terms of the Private Placement, we accrued $282,000 in estimated penalties as liquidated damages, which were expected to be incurred for the period through June 2008, the date we anticipated to be able to effectively complete the Registration Statement. The Registration Statement became effective on July 1, 2008. In September, 2008, the Company paid $40,500 in cash and issued 170,088 shares of common stock valued at approximately $1.00 per share for an aggregate payment of $210,688 to the holders of the Private Placement shares to settle the penalties due. The remaining $71,412 in accrued penalties was reversed in September, 2008 as certain shareholders had previously sold their shares, thus forfeiting their rights to any penalties.

Employment Contracts

Robert Gasparini

On March 12, 2008, we entered into an employment agreement with Robert Gasparini, our President and Chief Scientific Officer, to extend his employment with the Company for an additional four year term. This employment agreement was retroactive to January 1, 2008 and provides that it will automatically renew after the initial four year term for one year increments unless either party provides written notice to the other party of their intention to terminate the agreement 90 days before the end of the initial term (or any renewal term). The employment agreement specifies an initial base salary of $225,000/year with specified salary increases tied to achieving revenue goals. Mr. Gasparini is also entitled to receive cash bonuses for any given fiscal year in an amount equal to 30% of his base salary if he meets certain targets established by the Board of Directors. In addition, Mr. Gasparini was granted 784,000 stock options at an exercise price of $0.80 and with a seven year term so long as Mr. Gasparini remains an employee of the Company. These options are scheduled to vest according to the passage of time and the meeting of certain performance-based milestones. Mr. Gasparini's employment agreement also specifies that he is entitled to four weeks of paid vacation per year and other insurance 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 benefits for a period of a year.

Jerome Dvonch

On June 14, 2008, we entered into an employment agreement with Jerome Dvonch, our Principal Accounting Officer, to extend his employment with the Company for an additional four year term and provides that it will automatically renew after the initial four year term for one year increments unless either party provides written notice to the other party of their intention to terminate the agreement 30 days before the end of the initial term (or any renewal term). The employment agreement specifies an initial base salary of $150,000/year and does not allow for an increase during the first 24 months of the term. Mr. Dvonch is also entitled to receive cash bonuses for any given fiscal year if he meets certain targets established by the Board of Directors. In addition, Mr. Dvonch was granted 100,000 stock options with an exercise price of $1.04 and with a seven year term so long as Mr. Dvonch remains an employee of the Company. These options are scheduled to vest according to the passage of time and the meeting of certain performance-based milestones. Mr. Dvonch's employment agreement also specifies that he is entitled to four weeks of paid vacation per year and other insurance benefits. In the event that Mr. Dvonch is terminated without cause by the Company, the Company has agreed to pay Mr. Dvonch's base salary and maintain his benefits for a period of six months.

Douglas VanOort

On March 16, 2009, the Company entered into an employment agreement with Douglas M. VanOort (the “Employment Agreement”) to employ Mr. VanOort in the capacity of Executive Chairman and interim Chief Executive Officer. The Employment Agreement has an initial term from March 16, 2009 through March 16, 2013, which initial term automatically renews for one year periods. Mr. VanOort will receive a salary of $225,000 per year for so long as he spends not less than 2.5 days per week on the affairs of the Company. He will receive an additional $50,000 per year while serving as the Company’s interim Chief Executive Officer; provided that he spends not less than 3.5 days per week on average on the affairs of the Company. Mr. VanOort is also eligible to receive an annual cash bonus based on the achievement of certain performance metrics of at least 30% of his base salary (which includes amounts payable with respect to serving as Executive Chairman and interim Chief Executive Officer). Mr. VanOort is also entitled to participate in all of the Company’s employee benefit plans and any other benefit programs established for officers of the Company.

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The Employment Agreement also provides that Mr. VanOort will be granted an option to purchase 1,000,000 shares of the Company's common stock under the Company's Amended and Restated Equity Incentive Plan (the "Amended Plan"). The exercise price of such option is $0.80 per share. 500,000 shares of common stock subject to the option will vest according to the following schedule (i) 200,000 shares will vest on March 16, 2010 (provided that if Mr. VanOort's employment is terminated by the Company without "cause" then the pro rata portion of such 200,000 shares up until the date of termination shall vest); (ii) 12,500 shares will vest each month beginning on April 16, 2010 until March 16, 2011; (iii) 8,000 shares will vest each month beginning on April 16, 2011 until March 16, 2012 and (iv) 4,500 shares will vest each month beginning on April 16, 2012 until March 16, 2013. 500,000 shares of common stock subject to the option will vest based on the achievement of certain performance metrics by the Company. Any unvested portion of the option described above shall vest in the event of a change of control of the Company.

Either party may terminate Mr. VanOort's employment with the Company at any time upon giving sixty days advance written notice to the other party. The Company and Mr. VanOort also entered into a Confidentiality, Non-Solicitation and Non-Compete Agreement in connection with the Employment Agreement.

On March 16, 2009, the Company and the Douglas M. VanOort Living Trust entered into a Subscription Agreement (the "Subscription Agreement") pursuant to which the Douglas M. VanOort Living Trust purchased 625,000 shares of the Company's common stock at a purchase price of $0.80 per share (the "Subscription Shares"). The Subscription Shares are subject to a two year lock-up that restricts the transfer of the Subscription Shares; provided, however, that such lock-up shall expire in the event that the Company terminates Mr. VanOort's employment. The Subscription Agreement also provides for certain piggyback registration rights with respect to the Subscription Shares.

On October 28, 2009, the Company appointed Douglas M. VanOort, to the position of Chief Executive Officer and amended and restated his employment agreement, as previously disclosed, pursuant to a Current Report on Form 8-K filed with the Securities and Exchange Commission on November 3, 2009. Mr. VanOort previously held the position of Executive Chairman and Interim Chief Executive Officer of the Company from March 16, 2009 until October 28, 2009. Mr. VanOort also serves as the Chairman of the Company's Board of Directors.

Grant Carlson

On July 22, 2009, the Company entered into an employment agreement with Grant Carlson (to employ Mr. Carlson in the capacity of Vice President Sales and Marketing. The Offer Letter provides for a four (4) year term, which is terminable upon written notice by either party. The Offer Letter also provides for an initial base salary of $200,000 per year and provides that Mr. Carlson is eligible to receive an incentive bonus targeted at 30% of his base salary based on the achievement of certain goals. Mr. Carlson is entitled to participate in all medical and other benefits that the Company has established for its employees. Mr. Carlson also is entitled to an automobile allowance of $700 per month (plus reimbursement for work-related gas expenses) and reimbursement for personal telephone and cell phone use at a rate of $250 per month. Mr. Carlson is also eligible for four (4) weeks of paid time off per year. Mr. Carlson is also eligible for up to $20,000 of relocation assistance. Mr. Carlson was granted 150,000 stock options at an exercise price of $1.34 and with a five year term so long as Mr. Carlson remains an employee of the Company. If Mr. Carlson resigns prior to July 6, 2010, he will forfeit the option. If the Company terminates Mr. Carlson without cause then the Company will continue to pay Mr. Carlson's base salary and maintain his employee benefits for a period of six months.

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George Cardoza

On November 30, 2009, we entered into an employment agreement with George Cardoza, our Chief Financial Officer. The Employment Agreement has an initial term from November 30, 2009 through November 29, 2013, which initial term automatically renews for one year periods. The employment agreement specifies an initial base salary of $190,000 per year. Mr. Cardoza is also entitled beginning with the year ended December 31, 2010 to receive cash bonuses for any given fiscal year in an amount equal to 30% of his base salary if he meets certain goals established by the CEO and approved by the board of directors. In addition, Mr. Cardoza was granted 150,000 stock options at an exercise price of $1.55 and with a five year term so long as Mr. Cardoza remains an employee of the Company. These options are scheduled to vest according to the passage of time. Mr. Cardoza's employment agreement also specifies that he is entitled to four weeks of paid vacation per year and other insurance benefits. Mr. Cardoza is also eligible for up to $20,000 of relocation assistance. In the event that Mr. Cardoza is terminated without cause by the Company, the Company has agreed to pay Mr. Cardoza's base salary and maintain his benefits for a period of six months.

Jack G. Spitz

On December 7, 2009, we entered into an employment agreement with Jack G. Spitz, our Vice President of Laboratory Operations. The Employment Agreement has an initial term from December 7, 2009 through December 6, 2013, which initial term automatically renews for one year periods. The employment agreement specifies an initial base salary of $210,000 per year. Mr. Spitz is also entitled beginning with the year ended December 31, 2010 to receive cash bonuses for any given fiscal year in an amount equal to 30% of his base salary if he meets certain goals established by the President or CEO and approved by the board of directors. In addition, Mr. Spitz was granted 150,000 stock options at an exercise price of $1.52 and with a five year term so long as Mr. Spitz remains an employee of the Company. These options are scheduled to vest according to the passage of time. Mr. Spitz's employment agreement also specifies that he is entitled to four weeks of paid vacation per year and other insurance benefits. Mr. Spitz is also eligible for up to $35,000 of relocation assistance. In the event that Mr. Spitz is terminated without cause by the Company, the Company has agreed to pay Mr. Spitz's base salary and maintain his benefits for a period of six months.

NOTE H – REVOLVING CREDIT AND SECURITY AGREEMENT

On February 1, 2008, our subsidiary, NeoGenomics Laboratories, Inc., (“the Borrower”), entered into a Revolving Credit and Security Agreement (the “Credit Facility” or “Credit Agreement”) with CapitalSource Finance LLC (“CapitalSource”), the terms of which provide for borrowings based on eligible accounts receivable up to a maximum borrowing of $3,000,000, as defined in the Credit Agreement. Subject to the provisions of the Credit Agreement, CapitalSource will make advances to us from time to time during the three year term, and the Credit Facility may be drawn, repaid and redrawn from time to time as permitted under the Credit Agreement.

Interest on outstanding advances under the Credit Facility are payable monthly in arrears on the first day of each calendar month at an annual rate based on the one-month LIBOR plus 3.25%, subject to a LIBOR floor of 3.14%. At December 31, 2009, the effective rate of interest was 6.39%. On December 31, 2009, the available credit under the Credit Facility was approximately $2,448,000 and the outstanding borrowing was $552,000 after netting compensating cash on hand.

To secure the payment and performance in full of the Obligations (as defined in the Credit Agreement), we granted CapitalSource a continuing security interest in and lien upon, all of our rights, title and interest in and to our Accounts (as defined in the Credit Agreement), which primarily consist of accounts receivable and cash balances held in lock box accounts. Furthermore, pursuant to the Credit Agreement, the Parent guaranteed the punctual payment when due, whether at stated maturity, by acceleration or otherwise, of all of the Obligations. The Parent guaranty is a continuing guarantee and shall remain in force and effect until the indefeasible cash payment in full of the Guaranteed Obligations (as defined in the Credit Agreement) and all other amounts payable under the Credit Agreement.

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On November 3, 2008, the Company and CapitalSource signed a first amendment to the Credit Agreement. This amendment increased the amount allowable under the Credit Agreement to pay towards the settlement of the US Labs lawsuit to $250,000 from $100,000 and documented other administrative agreements between NeoGenomics and CapitalSource.

On April 14, 2009, the Parent Company, NeoGenomics Laboratories, Inc. (the wholly owned subsidiary of the Parent Company) ("Borrower") and CapitalSource Finance LLC ("CapitalSource") (as agent for CapitalSource Bank) entered into a Second Amendment to Revolving Credit and Security Agreement (the "Loan Amendment"). The Loan Amendment, among other things, amends that certain Revolving Credit and Security Agreement dated February 1, 2008 as amended by that certain First Amendment to Revolving Credit and Security Agreement dated November 3, 2008 (as amended, the "Loan Agreement") to (i) provide that through December 31, 2009, the Borrower must maintain Minimum Liquidity (as defined in the Loan Agreement) of not less than $500,000, (ii) amend the definitions of "Fixed Charge Coverage Ratio" and "Fixed Charges", (iii) amend the definition of "Permitted Indebtedness" to increase the amount of permitted capitalized lease obligations and indebtedness incurred to purchase goods secured by certain purchase money liens and (iv) amend and update certain representations, warranties and schedules. In addition, pursuant to the Loan Amendment, CapitalSource waived the following events of default under the Loan Agreement: (i) the failure of the Borrower to comply with the fixed charge coverage ratio covenant for the test period ending December 31, 2008, (ii) the failure of the Borrower to notify CapitalSource of the change of Borrower's name to NeoGenomics Laboratories, Inc. and to obtain CapitalSource's prior consent to the related amendment to Borrower's Articles of Incorporation, (iii) the failure of the Parent Company and the Borrower to obtain CapitalSource's prior written consent to the amendment of the Parent Company's bylaws to allow for the size of the Parent Company's Board of Directors to be increased to eight members and (iv) the failure of the Borrower to notify CapitalSource of the filing of an immaterial complaint by the Borrower against a former employee of the Borrower. The Company paid CapitalSource Bank a $25,000 amendment fee in connection with the Loan Amendment.

On March 26, 2010, we entered into an amendment to the credit facility agreement with Capital Source (see Note O).

NOTE I – ABBOTT SUPPLY AGREEMENT

On July 24, 2009, NeoGenomics Laboratories and Abbott Molecular Inc., a Delaware corporation ("Abbott Molecular"), entered into a Strategic Supply Agreement (the "Supply Agreement"). The Supply Agreement, among other things, provides for Abbott Molecular to supply materials with which NeoGenomics intends to develop its own FISH (fluorescence in situ hybridization)-based test for the diagnosis of malignant melanoma in skin biopsy specimens (the "Melanoma LDT").

Pursuant to the terms of the Supply Agreement, Abbott Molecular has agreed to supply NeoGenomics with such of Abbott Molecular's analyte specific reagents ("ASRs") that NeoGenomics may request for the purpose of NeoGenomics' evaluation and determination as to which ASRs to include in its Melanoma LDT. Once the ASRs have been identified by NeoGenomics, Abbott Molecular has agreed to supply such ASRs (subject to certain limitations) to NeoGenomics. If NeoGenomics identifies for inclusion in the Melanoma LDT one or more ASRs that are not currently marketed or sold commercially by Abbott Molecular as individual stand-alone products, then the Supply Agreement provides that Abbott Molecular will supply such ASRs to NeoGenomics on an exclusive basis in the United States and Puerto Rico (the "Exclusive ASRs"), provided that Abbott Molecular may also supply such exclusive ASRs to certain of its academic collaborators for research and limited clinical purposes. Abbott Molecular's obligation to supply the Exclusive ASRs on an exclusive basis is subject to NeoGenomics meeting certain revenue thresholds with respect to the Melanoma LDT. Except for the ASRs supplied for evaluation purposes (which are to be supplied at no cost), the

Supply Agreement provides that the price of the ASRs supplied by Abbott Molecular will include both a base and a premium component.

In the event that Abbott Molecular obtains FDA approval for its own in vitro diagnostic test for aid in diagnosis of malignant melanoma in skin biopsy specimens, the Supply Agreement contemplates a means by which NeoGenomics may offer such FDA-approved test to its customers instead of the Melanoma LDT.

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Pursuant to the Supply Agreement, Abbott Molecular also granted to NeoGenomics a first right to develop two additional laboratory developed tests relating to certain specified disease states using Abbott Molecular ASRs or other products.

The initial term of the Supply Agreement expires on December 31, 2019. The Supply Agreement also contemplates two year renewal terms under certain circumstances. The parties may terminate the Supply Agreement prior to the expiration of the term under certain circumstances.

The Supply Agreement provides (subject to certain limitations) that Abbott Molecular may convert the Supply Agreement into a non-exclusive agreement or terminate the Supply Agreement if NeoGenomics does not develop and launch the Melanoma LDT within six (6) months after the date on which Abbott Molecular supplies ASRs (other than ASRs supplied for evaluation purposes) to NeoGenomics.

Abbott Molecular may terminate the Supply Agreement following a change of control involving NeoGenomics and certain designated companies. In such event Abbott Molecular would pay to NeoGenomics (or its successor) a termination payment based upon a pre-defined formula.

NOTE J – EQUITY TRANSACTIONS

Warrant Exercises from the 2007 Private Placement

During the period from May 31, 2007 through June 6, 2007, we sold 2,666,667 shares of our Common Stock to ten unaffiliated accredited investors (the “Investors”) at a price of $1.50 per share in a Private Placement of our Common Stock (the “Private Placement”). The Private Placement generated gross proceeds to the Company of $4.0 million, and after estimated transaction costs, the Company received net cash proceeds of approximately $3.8 million.

On August 15, 2007 our Board of Directors voted to issue warrants to purchase 533,334 shares of our Common Stock to the investors who purchased shares in the Private Placement. Such warrants have an exercise price of $1.50 per share and are exercisable for a period of two years.

In August 2009, 419,153 warrants were exercised that were attributable to this equity raise and the Company received proceeds of $628,700.

Common Stock Purchase Agreement

On November 5, 2008, we entered into a common stock purchase agreement (the “Stock Agreement”) with Fusion Capital Fund II, LLC (“Fusion”). The Stock Agreement, which has a term of 30 months, provides for the future funding of up to $8.0 million from sales of our common stock to Fusion on a when and if needed basis as determined by us in our sole discretion. In consideration for entering into this Stock Agreement, on October 10, 2008, we issued to Fusion 17,500 shares of our common stock (valued at $14,700 on the date of issuance) and $17,500 as a due diligence expense reimbursement. In addition, on November 5, 2008, we issued to Fusion 400,000 shares of our common stock (valued at $288,000 on the date of issuance) as a commitment fee. Concurrently with entering into the Stock Agreement, we entered into a registration rights agreement with Fusion. Under the registration rights agreement, we agreed to file a registration statement with the SEC covering the 417,500 shares that have already been issued to Fusion and at least 3.0 million shares that may be issued to Fusion under the Stock Agreement. Presently, we expect to sell no more than the initial 3.0 million shares to Fusion during the term of this Stock Agreement. The Company filed a registration statement on Form S-1 dated November 28, 2008, and on February 5, 2009 the filing became effective.

Under the Stock Agreement, after the SEC has declared effective the registration statement related to the transaction, we have the right to sell to Fusion shares of our common stock from time to time in amounts between $50,000 and $1.0 million, depending on the market price of our common stock. The purchase price of the shares related to any future funding under the Stock Agreement will be based on the prevailing market prices of our stock at the time of such sales without any fixed discount, and the Company will control the timing and amount of any sales of shares to Fusion. Fusion shall not have the right or the obligation to purchase any shares of our common stock on any business day that the price of our common stock is below $0.45 per share. The Stock Agreement may be terminated by us at any time at our discretion without any cost to us. There are no negative covenants, restrictions on future funding from other sources, penalties, further fees or liquidated damages in the agreement.

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Given our current liquidity position from cash on hand and our availability under our Credit Facility with CapitalSource (see Note H), we have no immediate plans to issue common stock under the Stock Agreement. If and when we do elect to sell shares to Fusion under this agreement, we expect to do so opportunistically and only under conditions deemed favorable by the Company. Any proceeds received by the Company from sales under the Stock Agreement will be used for general corporate purposes, working capital, and/or for expansion activities.

Asset Purchase Agreements

On February 2, 2009, we issued 300,000 shares of restricted stock, valued at $186,000 based on the February 2, 2009 closing price of the Company's common stock on the OTC Bulletin Board, in connection with two agreements to purchase the assets (primarily laboratory equipment) of two laboratories, including settlement of certain amounts due to the owners.

Share Purchase by the Douglas VanOort Living Trust

On March 16, 2009, the Company and the Douglas M. VanOort Living Trust entered into a Subscription Agreement (the "Subscription Agreement") pursuant to which the Douglas M. VanOort Living Trust purchased 625,000 shares of the Company's common stock at a purchase price of $0.80 per share (the "Subscription Shares"). Douglas M VanOort is Chairman of the Company's Board of Directors and Chief Executive Officer. The Subscription Shares are subject to a two year lock-up that restricts the transfer of the Subscription Shares; provided, however, that such lock-up shall expire in the event that the Company terminates Mr. VanOort's employment. The Subscription Agreement also provides for certain piggyback registration rights with respect to the Subscription Shares.

On March 16, 2009, the Company and Mr. VanOort entered into a Warrant Agreement (the "Warrant Agreement") pursuant to which Mr. VanOort, subject to the vesting schedule described below, may purchase up to 625,000 shares of the Company's common stock at an exercise price of $1.05 per share (the "Warrant Shares"). These warrants had an aggregate fair value of $160,267. The Warrant Shares vest based on the following vesting schedule:

(i) 20% of the Warrant Shares vest immediately,
(ii) 20% of the Warrant Shares will be deemed to be vested on the first day on which the closing price per share of the Company's common stock has reached or exceeded $3.00 per share for 20 consecutive trading days,
(iii) 20% of the Warrant Shares will be deemed to be vested on the first day on which the closing price per share of the Company's common stock has reached or exceeded $4.00 per share for 20 consecutive trading days,
(iv) 20% of the Warrant Shares will be deemed to be vested on the first day on which the closing price per share of the Company's common stock has reached or exceeded $5.00 per share for 20 consecutive trading days and
(v) 20% of the Warrant Shares will be deemed to be vested on the first day on which the closing price per share of the Company's common stock has reached or exceeded $6.00 per share for 20 consecutive trading days.

In the event of a change of control of the Company in which the consideration payable to each common stockholder of the Company in connection with such change of control has a deemed value of at least $4.00 per share, then the Warrant Shares shall immediately vest in full. In the event that Mr. VanOort resigns his employment with the Company or the Company terminates Mr. VanOort's employment for "cause" at any time prior to the time when all Warrant Shares have vested, then the rights under the Warrant Agreement with respect to the unvested portion of the Warrant Shares as of the date of termination will immediately terminate.

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Common Stock Purchase Agreement and Registration Rights Agreement with Abbott Laboratories

On July 24, 2009, NeoGenomics, Inc. entered into a Common Stock Purchase Agreement (the "Common Stock Purchase Agreement") with Abbott Laboratories, an Illinois corporation ("Abbott"), and consummated the issuance and sale to Abbott, for an aggregate purchase price of $4,767,000, of 3,500,000 shares of common stock, $0.001 par value per share (the "Shares"). Pursuant to the terms of the Common Stock Purchase Agreement, Abbott is prohibited from selling or otherwise transferring the Shares until January 20, 2010.

On July 24, 2009, NeoGenomics, Inc. and Abbott also entered into a Registration Rights Agreement (the "Registration Rights Agreement") that, among other things, grants certain demand and piggyback registration rights to Abbott with respect to the Shares.

NOTE K – EQUIPMENT CAPITAL LEASES

From time to time, we have entered into various capital leases, primarily to fund purchases of laboratory and other equipment, including the lease agreements described below.

Gulf Pointe Capital Lease Agreement

On September 30, 2008, we entered into a master lease agreement (the "Master Lease") with Gulf Pointe Capital, LLC ("Gulf Pointe") which provided for $130,000 of lease financing after it was determined that the lease facility with LTI described below would not allow for the leasing of certain used and other types of equipment. Three members of our Board of Directors, Steven Jones, Peter Petersen and Marvin Jaffe, are affiliated with Gulf Pointe and recused themselves from both sides of all negotiations concerning this transaction. The terms under this lease are consistent with the terms of our other lease arrangements and provided for the sale/leaseback of approximately $130,000 of used laboratory equipment. The lease has a 30 month term and a lease rate factor of 0.0397/month, which equates to monthly payments of $5,155 during the term. In consideration for entering into the Master Lease, the Company issued 32,475 common stock warrants to Gulf Pointe with an exercise price of $1.08 and a five year term. The warrants were valued at approximately $11,000 using the Black-Scholes option pricing model. At the end of the lease term, the Company's options are as follows: (a) purchase not less than all of the equipment for its then fair market value, not to exceed 15% of the original equipment cost, (b) extend the lease term for a minimum of six months, or (c) return not less than all the equipment at the conclusion of the lease term.

On February 9, 2009, we amended our Master Lease with GulfPointe to increase the maximum size of the facility to $250,000 and entered into a second schedule under the Master Lease for the sale/leaseback of approximately $118,000 of used laboratory equipment. This second lease has a 30 month term at the same lease rate factor per month as the first lease, which equates to monthly payments of $4,690 during the term. As part of this amendment, we terminated the original warrant agreement dated September 30, 2008 and replaced it with a new warrant to purchase 83,333 shares of our common stock. Such new warrants have a five year term, an exercise price of $0.75 per share and the same vesting schedule as the original warrants. The replacement warrants were valued using the Black-Scholes option pricing model and the value did not materially differ from the valuation of the original warrants they replaced.

Leasing Technologies International Lease Agreement

On November 5, 2008, we entered into a Master Lease Agreement with Leasing Technologies International, Inc (the "LTI Lease"). The LTI Lease establishes the general terms and conditions pursuant to which we may lease up to

$1,000,000 of equipment. Advances under the lease line may be made for one year by executing equipment schedules for each advance. The lease term of any equipment schedules issued under the lease line will be for 36 months. The lease rate factor applicable for each equipment schedule is 0.0327/month. If we make use of the entire lease line, the monthly rent would be $32,700. Monthly rent for the leased equipment is payable in advance on the first day of each month. At the end of the term of each equipment schedule, we may: (a) renew the lease with respect to such equipment for an additional 12 months at fair market value; (b) purchase the equipment at fair market value, which price will not be less than 10% of cost nor more than 14% of cost; (c) extend the term for an additional six months at 35% of the monthly rent paid during the initial term, after which the equipment may be purchased for the lesser of fair market value or 8% of cost; or (d) return the equipment subject to a remarketing charge equal to 6% of cost.

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In 2008, we entered into Lease Schedule No. 1 to the LTI Lease for $437,300 and on May 22, 2009, July 29, 2009 and September 22, 2009, entered into Lease Schedules Nos. 2, 3 and 4 for $442,300, $40,066, and $29,218, respectively, which were used to fund laboratory and computer equipment.

As of December 31, 2009, we have been advanced $948,884 under the LTI Lease. We cannot receive any further advances under the LTI Lease.

Wells Fargo Lease Agreement

On October 2, 2009, we entered into a Master Lease Agreement with Wells Fargo Equipment Finance, Inc. (the "Wells Fargo Lease"). The Wells Fargo Lease establishes the general terms and conditions pursuant to which we may lease up to $750,000 in equipment. Advances under the lease line may be made for 180 days by executing supplemental schedules for each advance, which would have a 60 month term.

On October 2, 2009, we entered into Lease Supplement No. 1 for $265,200 which was used to acquire laboratory equipment. Supplement No. 1, which is being accounted for as a capital lease, has a term of 60 months with monthly payments of $5,396 and a $1 final purchase payment at termination.

On January 14, 2010, we entered into Lease Supplement No. 2 for $424,000 which was used to acquire laboratory equipment. Supplement No. 2, which will be accounted for as a capital lease, has a term of 60 months with monthly payments of $8,628 and a $1 final purchase payment at termination.

After entering into Supplement No. 2 on January 14, 2010, we have $60,800 available for further advances under the Wells Fargo Lease.

SunTrust Lease Agreement

On October 28, 2009, we entered into an equipment lease agreement with SunTrust Equipment Finance & Leasing Corp. (the "SunTrust Lease"). The SunTrust Lease establishes the general terms and conditions pursuant to which we may lease up to $1.5 million in equipment and other property. Advances under the lease line may be made by executing supplemental schedules for each advance, which would have a term of 60 months.

On November 12, 2009, we entered into Lease Schedule No. 1 for $428,465 which was used to fund laboratory equipment, computer hardware and furniture and fixtures. Schedule No. 1, which is being accounted for as a capital lease, has a term of 60 months with monthly payments of $8,434 and a $1 final purchase payment at termination. As part of this schedule, the Subsidiary agreed to keep at least $1,000,000 in compensating cash balances with SunTrust as long as the subsidiary owed any monies under the schedule. This balance is accounted for as current restricted cash as we have the ability to pay-off the schedule at any time and as a result of that we have shown the principal owed on the arrangement as a current liability.

On January 19, 2010, we entered into Lease Schedule No. 2 for $289,573 which was used to fund laboratory equipment and furniture and fixtures. Schedule 2, which will be accounted for as a capital lease, has a term of 60 months with monthly payments of $5,704 and a $1 final purchase payment at termination.

After entering into Lease Schedule No. 2 on January 19, 2010, we have $781,962 available for further advances under the SunTrust Lease.

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Capital Lease Obligations

The Company's capital lease obligations expire at various times through 2014 and the weighted average interest rates under such leases approximated 13.3% at December 31, 2009. Most of these leases contain bargain purchase options that allow us to purchase the leased property for a minimal amount upon the expiration of the lease term. Future minimum lease payments under capital lease obligations, including those described above, are:

Years ending December 31,		
2010	$	1,836,501
2011		1,058,020
2012		431,844
2013		167,863
2014		83,664
Total future minimum lease payments		3,577,892
Less amount representing interest		(569,838)
Present value of future minimum lease payments		3,008,054
Less current maturities		(1,482,326)
Obligations under capital leases – long term	$	1,525,728

Property and equipment acquired under capital lease agreements (see Note D) is pledged as collateral to secure the performance of the future minimum lease payments above.

NOTE L – RELATED PARTY TRANSACTIONS

Consulting Agreements

During 2009 and 2008, Steven C. Jones, a director of the Company, earned $199,600 and $176,300, respectively, for various consulting work performed in connection with his duties as Acting Principal Financial Officer and Executive Vice President of Finance.

During 2009 and 2008, George O'Leary, a director of the Company, earned $60,200 and $22,200, respectively, in cash for various consulting work performed for the Company. On March 15, 2007, Mr. O'Leary received 50,000 stock options for work performed for the benefit of the Company and 100,000 warrants for certain consulting services performed for the Company. The stock options had an exercise price of $0.26 per/share. These warrants had an exercise price of $1.49 per/share and a five year term. Half of the warrants were deemed vested on issuance and the other half vested ratably over a 24 month period. During 2009, Mr. O'Leary exercised the 100,000 warrants and the 50,000 stock options in a cash-less exercise per the terms of the agreements. The Company issued 85,030 and 42,215 shares to settle these exercise.

On June 6, 2007, we issued to the six non-employees director's of our board of directors a total of 550,000 warrants at $1.50/share. Such warrants had an exercise price of $1.50/share with three year vesting and a five year final term. These warrants were valued at approximately $280,000 on the date of issuance using the Black-Schools option pricing model and our being expensed over the vesting period. These warrants expire in June 2012.

Laboratory Information System

On March 11, 2005, we entered into an agreement with HCSS, LLC and eTelenext, Inc. to enable NeoGenomics to use 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, a member of our Board of Directors. George O'Leary, a member of our Board of Directors is Chief Financial Officer of HCSS, LLC.

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On June 18, 2009, we entered into a Software Development, License and Support Agreement with HCSS, LLC and eTelenext, Inc. to upgrade the Company's laboratory information system to APvX. . The estimated costs for the development and migration phase are anticipated to be approximately $75,000 and are expected to be completed in April 2010. This agreement has an initial term of five years from the date of acceptance and calls for monthly fees of $8,000-$12,000 during the term. During the years ended December 31, 2009 and 2008, HCSS earned approximately $87,675 and approximately $99,900, respectively, for transaction fees related to completed tests.

During 2009, eTelenext and HCSS were merged to form PathCenter, Inc. Dr. Michael T. Dent and Mr. George O'Leary have beneficial ownership of 12.2% and 4.6%, respectively of PathCenter, Inc.

Gulf Pointe Capital Lease Agreement

See Note K for a description of our lease agreement with Gulf Pointe Capital, LLC, an entity with which three members of our Board of Directors, Steven Jones, Peter Petersen and Marvin Jaffe, are affiliated.

NOTE M – POWER 3 MEDICAL PRODUCTS, INC.

On April 2, 2007, we entered into an agreement with Power3 Medical Products, Inc., ("Power3") regarding the formation of a joint venture Contract Research Organization ("CRO") and the issuance of convertible debentures and certain options by Power3 to us (the "Letter Agreement"). Power3 is an early stage company engaged in the discovery, development, and commercialization of protein biomarkers. As part of the agreement, on April 17, 2007, we provided $200,000 of working capital to Power3 by purchasing a 6% convertible debenture, due April 17, 2009 (the "Debenture"). We were also granted two options to increase our stake in Power3 first to 20% and then up to 60% of Power3's fully diluted shares. The first option is exercisable for a period starting on the date of purchase of the convertible debenture by NeoGenomics and extending until the day which is the later of (y) November 16, 2007 or (z) the date that certain preconditions specified in the agreement have been achieved.

As of March 24, 2010, Power3 had still failed to meet at least four of the five preconditions specified in the Letter Agreement. As a result of this failure to meet the pre-conditions specified in the Letter Agreement, we believe that all of our options to acquire interests in Power3 and license their Intellectual Property are still in full force and effect and we have notified Power3 that we are reserving all of our rights under the Letter Agreement. We have also notified Power3 that they are in default of their obligations under the Debenture by failing to pay interest due since September 2008 and principal which was due April 17, 2009, and that as a result of such default, we were demanding the accelerated payment of the full principal and any accrued interest under the Debenture. We intend to vigorously pursue all remedies in this matter.

NOTE N – RETIREMENT PLAN

We maintain a defined-contribution 401(k) retirement plan covering substantially all employees (as defined). Our employees may make voluntary contributions to the plan, subject to limitations based on IRS regulations and compensation. In addition, we match any employees' contributions on a dollar to dollar basis up to 1% of the respective employee's salary. We made matching contributions of approximately $50,798 and $41,000 during the years ended December 31, 2009 and 2008, respectively.

NOTE O – SUBSEQUENT EVENTS

Equipment Leases

As described in Note K, on January 14, 2010 and January 19, 2010, we entered into additional capital leases under our lease facilities with Wells Fargo and SunTrust, respectively.

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Third Amendment to Revolving Credit and Security Agreement

On March 26, 2010, we entered into an amendment (the "Third Amendment") to the credit facility agreement with CapitalSource (see Note H), for which we paid CapitalSource an amendment fee of $25,000. The Third Amendment waived events of default relating to our failure to comply with the Fixed Charge Coverage Ratio for the Test Periods ended January 31, 2010 and February 28, 2010. The Third Amendment also revised the Fixed Charge Coverage Ratio calculation for the Test Period ending March 31, 2010 to permit us to add amounts of unrestricted cash, unrestricted cash equivalents and unused availability to Adjusted EBITDA for purposes of the test. For each monthly Test Period after March 31, 2010, the calculation of the Coverage Ratio will revert to Adjusted EBITDA, without adjustment for such amounts.

End of Financial Statements