

NEOGENOMICS INC  
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Registration No. 333-155784

PROSPECTUS  
NEOGENOMICS, INC.  
6,500,000 Shares of Common Stock

This prospectus relates to the sale of up to 6,500,000 shares of the common stock, par value \$0.001 per share, of NeoGenomics, Inc., a Nevada corporation, by the selling stockholders named in this prospectus in the section "Selling Stockholders". In this prospectus we refer to NeoGenomics, Inc., a Nevada corporation, individually as the "Parent Company" and collectively with all of its subsidiaries as "Company," "we," "us," "our" and "NeoGenomics".

The Company is not selling any shares of common stock in this offering and therefore will not receive any proceeds from this offering. All costs associated with this registration will be borne by the Company. The prices at which the selling stockholders may sell the shares will be determined by the prevailing market price for the shares or in negotiated transactions.

Our common stock is quoted on the Over-The-Counter Bulletin Board under the symbol "NGNM.OB". On January 21, 2009, the last reported sale price of our common stock on the Over-The-Counter Bulletin Board was \$0.69 per share.

One of the selling stockholders, Fusion Capital Fund II, LLC, is an "underwriter" within the meaning of the Securities Act of 1933, as amended (the "Securities Act").

These securities are speculative and involve a high degree of risk. Please refer to "Risk Factors" beginning on page 10 for a discussion of these risks.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The date of this prospectus is March 10, 2009.

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## PROSPECTUS SUMMARY

The following is only a summary of the information, Financial Statements and the Notes thereto included in this prospectus. You should read the entire prospectus carefully, including “Risk Factors” and our Financial Statements and the Notes thereto before making any investment decision.

### Our Company

NeoGenomics operates a network of cancer-focused genetic testing laboratories. The Company’s growing network of laboratories currently offers the following types of testing services to pathologists, oncologists, urologists, hospitals, and other laboratories throughout the United States:

- 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; and
- d) 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 and prognosis of various types of cancer.

The medical testing laboratory market can be broken down into three segments: clinical lab testing, anatomic pathology testing, and genetic and molecular testing. Clinical lab testing is typically done by laboratories that specialize 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 base pairs of DNA or RNA 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 average revenue per test of the three market segments. The estimated size of this market and the related parts of the AP testing market that we address is approximately \$4-\$5 Billion.

Our primary focus is to provide high complexity laboratory testing for the community-based pathology and oncology marketplace. Within these key market segments, we currently provide our services to pathologists and oncologists in the United States that perform bone marrow and/or peripheral blood sampling for the diagnosis of blood and lymphoid tumors (leukemias and lymphomas) and archival tissue referral for analysis of solid tumors such as breast cancer. A secondary strategic focus targets community-based urologists due to the availability of a new FISH-based test for the initial diagnosis of bladder cancer and early detection of recurrent disease. 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, not in academic centers, due to ease of local access. Moreover,

within the community-based pathologist segment it is not our intent to willingly compete with our customers for testing services that they may seek to perform themselves. Fee-for-service pathologists for example, derive a significant portion of their annual revenue from the interpretation of biopsy specimens. Unlike other larger laboratories, which strive to perform 100% of such testing services themselves, we do not intend to compete with our customers for such specimens. Rather, our high complexity cancer testing focus is a natural extension of and complementary to many of the services that our community-based customers often perform within their own practices. As such, we believe our relationship as a non-competitive consultant, empowers these physicians 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 continue to make progress growing our testing volumes and revenue beyond our historically focused effort in Florida due to our expanding field sales footprint. As of December 31, 2008, NeoGenomics' sales and marketing organization had 14 territory business managers, three regional managers, a National Director of Sales and three team members in business development and marketing, and we have received business from 30 states throughout the country. Recent, key hires included various territory business managers (sales representatives) in the Northeastern, Southeastern, and Western states. As more sales representatives are added, we believe that the base of our business outside of Florida will continue to grow and ultimately eclipse that which is generated within the state.

We are successfully competing in the marketplace based on the quality and comprehensiveness of our test results, and our innovative flexible levels of service, industry-leading turn-around times, regionalization of laboratory operations and ability to provide after-test support to those physicians requesting consultation.

2007 saw the refinement of our industry leading NeoFISHTM technical component-only FISH service offering. Upon the suggestion of our installed customer base, we made numerous usability and technical enhancements throughout last year. The result has been a product line for NeoGenomics that continues to resonate very well with our client pathologists. Utilizing NeoFISHTM, such clients are empowered to extend the outreach efforts of their practices and exert a high level of sign out control over their referral work in a manner that was previously unobtainable.

NeoFLOWTM tech-only flow cytometry was launched as a companion service to NeoFISHTM in late 2007. NeoFLOWTM has been a key growth driver in 2008. Moreover, the combination of NeoFLOWTM and NeoFISHTM serves to strengthen the market differentiation of each product line for NeoGenomics and allows us to compete more favorably against larger, more entrenched competitors in our testing niche.

We increased our professional level staffing for global requisitions requiring interpretation in 2007 and 2008. We currently employ three full-time MDs as our medical directors and pathologists, two PhDs as our scientific directors and cytogeneticists, and three part-time MDs acting as consultants and backup pathologists for case sign out purposes. We have plans to hire several more hematopathologists 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 (GPSTM) product line.

We believe NeoGenomics' average 3-5 day turn-around time for our cytogenetics services continues to remain an industry-leading benchmark for national laboratories. The timeliness of results continues to increase the usage patterns of cytogenetics and acts as a driver for other add-on testing requests by our referring physicians. Based on anecdotal information, we believe that typical cytogenetics labs have 7-14 day turn-around times on average with some labs running as high as 21 days. Traditionally, longer turn-around times for cytogenetics tests have resulted in fewer FISH and other molecular tests being ordered since there is an increased chance that the test results will not be returned within an acceptable diagnostic window when other adjunctive diagnostic test results are available. We believe our turn-around times result in our referring physicians requesting more of our testing services in order to augment or confirm other diagnostic tests, thereby giving us a significant competitive advantage in marketing our services against those of other competing laboratories.

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. Informal surveys of customers and prospects uncovered a desire to do business with a laboratory with national breadth but with a more local presence. In such a scenario, specimen integrity, turnaround-time of results, client service support, and interaction with our medical staff are all enhanced. We currently operate three laboratory locations in Fort Myers, Florida, Irvine, California and Nashville, Tennessee, each of which has received the appropriate state, Clinical Laboratory Improvement Amendments ("CLIA"), and College of American Pathologists ("CAP") licenses and accreditations. As situations dictate and opportunities arise, we will continue to develop and open new laboratories, seamlessly linked together by our optimized Laboratory Information System ("LIS"), to better meet the regionalized needs of our customers.

2007 brought progress in the NeoGenomics Contract Research Organization (“CRO”) division based at our Irvine, California facility. This division was created to take advantage of our core competencies in genetic and molecular high complexity testing and act as a vehicle to compete for research projects and clinical trial support contracts in the biotechnology and pharmaceutical industries. The CRO division will also act as a development conduit for the validation of new tests which can then be transferred to our clinical laboratories and be offered to our clients. We envision the CRO as a way to infuse some intellectual property into the mix of our services and in time create a more “vertically integrated” laboratory that can potentially offer additional clinical services of a more proprietary nature. 2007 brought the first revenue to NeoGenomics’ CRO division. This initial revenue stream was small due to the size of the contracts closed. During 2008 we began to scale revenues from the CRO division and we currently expect to grow this business significantly during 2009.

During 2008, we began offering additional tests that broaden our focus from genetic and molecular testing to more traditional types of anatomic pathology testing (i.e. immunohistochemistry) that are complementary to our current test offerings. At no time do we expect to intentionally compete with fee-for-service pathologists for services of this type, and Company sales efforts will operate under a strict “right of first refusal” philosophy that supports rather than undercuts the practice of community-based pathology. We believe that by adding additional types of tests to our product offering we will be able to capture increases in our testing volumes through our existing customer base as well as more easily attract new customers via the ability to package our testing services more appropriately to the needs of the market.

The above market strategy continues to bear fruit for the Company, resulting in strong year over year growth of 78% in FY 2007 versus FY 2006. For the nine months ended September 30, 2008, we experienced even stronger year over year revenue growth of 83% versus the comparable period in FY 2007. Our average revenue/requisition in FY 2007 was approximately \$702, which was an increase of approximately 4% from FY 2006. For the nine months ended September 30, 2008, our average revenue/requisition was approximately \$803 which was an increase of approximately 16% from the comparable period in 2007. Our average revenue/test in FY 2007 was approximately \$548, which was an increase of approximately 9% over FY 2006. Our average revenue/test for the nine months ended September 30, 2008 was approximately \$612, which was an increase of approximately 14% over the comparable period in FY 2007. FY 2007 saw a slight erosion of average tests per requisition due to the overwhelming success of our bladder cancer FISH product line, which tends to be a singly ordered test request. New sales hires and a new focus on global workups with interpretation and our integrated GPS product line allowed us to increase average number of tests per requisition for the nine months ended September 30, 2008 from the comparable period in FY 2007. For the three months ended September 30, 2008, average number of tests per requisition was 1.33 and we expect this number to continue to increase during 2009.

For the twelve months ended December 31	FY 2007	FY 2006	% Inc (Dec)
Customer Requisitions Received (Cases)	16,385	9,563	71.3%
Number of Tests Performed	20,998	12,838	63.6%
Average Number of Tests/Requisition	1.28	1.34	(4.5%)
Total Testing Revenue	\$ 11,504,725	\$ 6,475,996	77.7%
Average Revenue/Requisition	\$ 702.15	\$ 677.19	3.7%
Average Revenue/Test	\$ 547.90	\$ 504.44	8.6%
For the nine months ended September 30	FY 2008	FY 2007	% Inc (Dec)
Customer Requisitions Received (Cases)	17,758	11,123	59.7%
Number of Tests Performed	23,049	14,332	60.8%
Average Number of Tests/Requisition	1.31	1.29	1.6%
Total Testing Revenue	\$ 14,094,959	\$ 7,709,408	82.8%
Average Revenue/Requisition	\$ 802.77	\$ 693.01	15.8%
Average Revenue/Test	\$ 611.52	\$ 537.91	13.7%

We believe this bundled approach to testing represents a clinically sound practice that is medically valid. Within the subspecialty field of hematopathology, such a bundled approach to the diagnosis and prognosis of blood and lymph node diseases has become the standard of care throughout the country. In addition, as the average number of tests performed per requisition increases, we believe this should drive increases in our revenue and afford the Company significant synergies and efficiencies in our operations and sales and marketing activities.

About Us

Our principal executive offices are located at 12701 Commonwealth Drive, Suite 5, Fort Myers, Florida 33913. Our telephone number is (239) 768-0600. Our website can be accessed at [www.neogenomics.org](http://www.neogenomics.org).

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## THE OFFERING

This prospectus relates to the offer and sale of up to 6,500,000 shares of our common stock by the selling stockholders described below.

### Fusion Capital

On November 5, 2008, the Company and Fusion Capital Fund II, LLC, an Illinois limited liability company (“Fusion Capital”), entered into a Common Stock Purchase Agreement (the “Purchase Agreement”), and a Registration Rights Agreement (the “Registration Rights Agreement”). Under the Purchase Agreement, Fusion Capital is obligated, under certain conditions, to purchase shares from us in an aggregate amount of \$8.0 million from time to time over a thirty (30) month period. Under the terms of the Purchase Agreement, Fusion Capital has received a commitment fee consisting of 400,000 shares of our common stock. As of December 31, 2008, there were 32,117,237 shares outstanding (20,018,178 shares held by non-affiliates) excluding the 3,000,000 shares offered by Fusion Capital pursuant to this prospectus which it has not yet purchased from us. If all of such 3,000,000 shares offered hereby were issued and outstanding as of the date hereof, the 3,000,000 shares would represent 8.5% of the total common stock outstanding or 13.0% of the non-affiliates shares outstanding as of the date hereof.

Under the Purchase Agreement and the Registration Rights Agreement we are required to register and have included in the offering pursuant to this prospectus (1) 400,000 shares which have already been issued as a commitment fee, (2) 17,500 shares which we have issued to Fusion Capital as an expense reimbursement and (3) at least 3,000,000 shares which we may sell to Fusion Capital in the future. All 3,417,500 shares, 10.6% of our outstanding on November 5, 2008, the date of the Purchase Agreement, are being offered pursuant to this prospectus. Under the Purchase Agreement, we have the right but not the obligation to sell more than the 3,000,000 shares to Fusion Capital. As of the date hereof, we do not currently have any plans or intent to sell to Fusion Capital any shares beyond the 3,000,000 shares offered hereby. However, if we elect to sell more than the 3,000,000 shares (which we have the right but not the obligation to do), we must first register such additional shares under the Securities Act before we can elect to sell such additional shares to Fusion Capital. In the event we elect to do so, this could cause substantial dilution to our shareholders. The number of shares ultimately offered for sale by Fusion Capital is dependent upon the number of shares purchased by Fusion Capital under the Purchase Agreement.

We do not have the right to commence any sales of our shares to Fusion Capital until the SEC has declared effective the registration statement of which this prospectus is a part. The registration statement was declared effective on February 5, 2009 and the conditions to commence funding were satisfied. Generally, we have the right but not the obligation from time to time to sell our shares to Fusion Capital in amounts between \$50,000 and \$1.0 million depending on certain conditions. We have the right to control the timing and amount of any sales of our shares to Fusion Capital. The purchase price of the shares will be determined based upon the market price of our shares without any fixed discount at the time of each sale. Fusion Capital shall not have the right nor 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. There are no negative covenants, restrictions on future fundings, penalties or liquidated damages in the Purchase Agreement or the Registration Rights Agreement. The Purchase Agreement may be terminated by us at any time at our discretion without any cost to us. The Purchase Agreement provides that neither party has the ability to amend the Purchase Agreement and the obligations of both parties are non-transferable.

### Other Selling Stockholders

- Aspen Select Healthcare, LP (“Aspen”), which intends to sell up to 2,130,364 shares of common stock previously issued and sold by the Company to Aspen on April 15, 2003 (the “2003 Aspen Placement”). Aspen received registration rights with respect to these shares and therefore, such shares are being registered hereunder.

- Mary S. Dent, the spouse of Dr. Michael Dent, who is our Chairman of the Board and founder, who intends to sell up to 553,488 shares of common stock previously issued and sold by the Company to Dr. Dent as founder shares. Such shares were subsequently transferred to Mary Dent in February 2007. Dr. Dent received registration rights with respect to these shares and therefore, such shares are being registered hereunder.

- Those shareholders other than Aspen and Mary Dent who are set forth in the section herein entitled “Selling Stockholders” who intend to sell up to an aggregate of 398,648 shares of common stock which they received in a distribution from Aspen in September 2007. All of such shares were originally purchased by Aspen in the 2003 Aspen Placement. Aspen received registration rights with respect to these shares and has assigned such rights to these selling stockholders and therefore, such shares are being registered hereunder.

Please refer to “Selling Stockholders” beginning on page 22.

The Company is not selling any shares of common stock in this offering and therefore will not receive any proceeds from this offering. All costs associated with this registration will be borne by the Company. The prices at which the selling stockholders may sell the shares will be determined by the prevailing market price for the shares or in negotiated transactions.

Our common stock is quoted on the Over-The-Counter Bulletin Board under the symbol “NGNM.OB”. On January 21, 2009, the last reported sale price of our common stock on the Over-The-Counter Bulletin Board was \$0.69 per share.

Common Stock Offered	6,500,000 shares by selling stockholders
Offering Price	Market price
Common Stock Currently Outstanding	32,122,382 shares as of January 21, 2009
Use of Proceeds	We will not receive any proceeds of the shares offered by the selling stockholders. See “Use of Proceeds”.
Risk Factors	The securities offered hereby involve a high degree of risk. See “Risk Factors” beginning on page 10 for a discussion of these risks.
Over-the-Counter Bulletin Board Symbol	NGNM.OB

## SUMMARY CONSOLIDATED FINANCIAL INFORMATION

The Summary Consolidated Financial Information set forth below was excerpted from the Company's unaudited Quarterly Report on Form 10-Q for the nine months ended September 30, 2008 and 2007, as filed with the SEC.

## Statement of Operations Data

	For the Nine Months Ended	
	September 30, 2008	September 30, 2007
Net Revenue	\$ 14,094,959	\$ 7,709,408
Cost of Revenue	6,577,549	3,623,860
Gross Profit	7,517,410	4,085,548
Other Operating Expenses:		
General and administrative	7,706,284	5,664,053
Interest expense, net	199,336	205,806
Total Operating Expenses	7,905,620	5,869,859
Net Loss	\$ (388,210)	\$ (1,784,311)
Net Loss Per Share - Basic And Fully Diluted	\$ (0.01)	\$ (0.06)
Weighted Average Number Of Shares Outstanding – Basic and Fully Diluted	31,414,065	29,221,778

## Balance Sheet Data

	As of	
	September 30, 2008	December 31, 2007
<b>Current Assets</b>		
Cash and cash equivalents	\$ 631,365	\$ 210,573
Accounts receivable (net of allowance for doubtful accounts of \$283,111 and \$414,548, respectively)	3,381,066	3,236,751
Inventories	344,608	304,750
Other current assets	900,146	400,168
Total current assets	5,257,185	4,152,242
Property and equipment (net of accumulated depreciation of \$1,374,942 and \$862,030, respectively)	2,495,146	2,108,083
Other assets	275,087	260,575
Total Assets	\$ 8,027,418	\$ 6,520,900
<b>Liabilities And Stockholders' Equity:</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 1,904,694	\$ 1,799,159
Accrued expenses and other liabilities	955,405	1,319,580
Revolving credit line	1,176,221	-
Short-term portion of equipment capital leases	449,776	242,966
Total current liabilities	4,486,096	3,361,705
<b>Long Term Liabilities</b>		
Long-term portion of equipment capital leases	1,054,321	837,081
Total Liabilities	5,540,417	4,198,786
<b>Stockholders' Equity</b>		
Common stock, \$.001 par value, (100,000,000 shares authorized; 31,686,355 and 31,391,660 shares issued and outstanding, respectively)	31,686	31,391
Additional paid-in capital	17,373,756	16,820,954
Accumulated deficit	(14,918,441)	(14,530,231)
Total stockholders' equity	2,487,001	2,322,114
Total Liabilities and Stockholders' Equity	\$ 8,027,418	\$ 6,520,900

The Summary Consolidated Financial Information set forth below was excerpted from the Company's Annual Reports on Form 10-KSB for the years ended December 31, 2007 and 2006, as filed with the SEC.

Statement of Operations Data

	For the Years Ended December 31,	
	2007	2006
Net Revenue	\$ 11,504,725	\$ 6,475,996
Cost of Revenue	5,522,775	2,759,190
Gross Profit	5,981,950	3,716,806
Other Operating Expense:		
General and administrative	9,122,922	3,576,812
Income / (Loss) from Operations	(3,140,972)	139,994
Other Income / (Expense):		
Other income	24,256	55,970
Interest expense	(263,456)	(325,625)
Other income / (expense) – net	(239,200)	(269,655)
Net Loss	\$ (3,380,172)	\$ (129,661)
Net Loss Per Share – Basic and Diluted	\$ (0.11)	\$ (0.00)
Weighted Average Number of Shares Outstanding – Basic and Diluted		
	29,764,289	26,166,031

## Balance Sheet Data

	As of	
	December 31, 2007	December 31, 2006
<b>Assets:</b>		
Cash and cash equivalents	\$ 210,573	\$ 126,266
Accounts receivable (net of allowance for doubtful accounts of \$414,548 and 103,463, respectively)	3,236,751	1,549,758
Inventories	304,750	117,362
Other current assets	400,168	102,172
<b>Total current assets</b>	<b>4,152,242</b>	<b>1,895,558</b>
Property and equipment (net of accumulated depreciation of \$862,030 and \$494,942, respectively)	2,108,083	1,202,487
Other assets	260,575	33,903
<b>Total Assets</b>	<b>\$ 6,520,900</b>	<b>\$ 3,131,948</b>
<b>Liabilities &amp; Stockholders' Equity:</b>		
<b>Current Liabilities</b>		
Account payable	\$ 1,799,159	\$ 697,754
Accrued compensation	370,496	133,490
Accrued expenses and other liabilities	574,084	67,098
Legal contingency	375,000	-
Due to affiliates (net of discount of \$39,285)	-	1,635,715
Short-term portion of equipment capital leases	242,966	94,430
<b>Total current liabilities</b>	<b>3,361,705</b>	<b>2,628,487</b>
<b>Long-Term Liabilities</b>		
Long-term portion of equipment capital leases	837,081	448,947
<b>Total Liabilities:</b>	<b>4,198,786</b>	<b>3,077,434</b>
<b>Commitments and contingencies</b>		
<b>Stockholders' Equity:</b>		
Common Stock, \$0.01 par value, (100,000,000 shares authorized; And 31,391,660 and 27,061,476 shares issued and outstanding at December 31, 2007 and 2006, respectively)	31,391	27,061
Additional paid-in capital	16,820,954	11,300,135
Deferred stock compensation	-	(122,623)
Accumulated deficit	(14,530,231)	(11,150,059)
<b>Total stockholders' equity</b>	<b>2,322,114</b>	<b>54,514</b>
<b>Total Liabilities and Stockholders' Equity</b>	<b>\$ 6,520,900</b>	<b>\$ 3,131,948</b>

## RISK FACTORS

We are subject to various risks that may materially harm our business, financial condition and results of operations. An investor should carefully consider the risks and uncertainties described below and the other information in this filing before deciding to purchase our common stock. If any of these risks or uncertainties actually occurs, our business, financial condition or operating results could be materially harmed. In that case, the trading price of our common stock could decline or we may be forced to cease operations.

### Risks Related To Our Business

#### We Have A Limited Operating History Upon Which You Can Evaluate Our Business And Unforeseen Risks May Harm The Success Of Our Business

We commenced revenue operations in 2002 and are just beginning to generate meaningful revenue. Accordingly, we have a limited operating history upon which an evaluation of us and our prospects can be based. We and our prospects must be considered in light of the risks, expenses and difficulties frequently encountered by companies in the rapidly evolving market for healthcare and medical laboratory services. To address these risks, we must, among other things, respond to competitive developments, attract, retain and motivate qualified personnel, implement and successfully execute our sales strategy, develop and market additional services, and upgrade our technological and physical infrastructure in order to scale our revenues. We may not be successful in addressing such risks. Our limited operating history makes the prediction of future results of operations difficult or impossible.

#### We May Not Be Able To Implement Our Business Strategies Which Could Impair Our Ability To Continue Operations

Implementation of our business strategies will depend in large part on our ability to (i) attract and maintain a significant number of customers; (ii) effectively provide acceptable products and services to our customers; (iii) obtain adequate financing on favorable terms to fund our business strategies; (iv) maintain appropriate procedures, policies, and systems; (v) hire, train, and retain skilled employees; (vi) continue to operate with increasing competition in the medical laboratory industry; (vii) establish, develop and maintain name recognition; and (viii) establish and maintain beneficial relationships with third-party insurance providers and other third party payors. Our inability to obtain or maintain any or all these factors could impair our ability to implement our business strategies successfully, which could have material adverse effects on our results of operations and financial condition.

#### We May Be Unsuccessful In Managing Our Growth Which Could Prevent The Company From Becoming Profitable

Our recent growth has placed, and is expected to continue to place, a significant strain on our managerial, operational and financial resources. To manage our potential growth, we must continue to implement and improve our operational and financial systems and to expand, train and manage our employee base. We may not be able to effectively manage the expansion of our operations and our systems, procedures or controls may not be adequate to support our operations. Our management may not be able to achieve the rapid execution necessary to fully exploit the market opportunity for our products and services. Any inability to manage growth could have a material adverse effect on our business, results of operations, potential profitability and financial condition.

Part of our business strategy may be to acquire assets or other companies that will complement our existing business. At this time, we are unable to predict whether or when any material transaction will be completed should negotiations commence. If we proceed with any such transaction, we may not effectively integrate the acquired operations with our own operations. We may also seek to finance any such acquisition by debt financings or issuances of equity securities and such financing may not be available on acceptable terms or at all.

We May Incur Greater Costs Than Anticipated, Which Could Result In Sustained Losses

We used reasonable efforts to assess and predict the expenses necessary to pursue our business plan. However, implementing our business plan may require more employees, capital equipment, supplies or other expenditure items than management has predicted. Similarly, the cost of compensating additional management, employees and consultants or other operating costs may be more than we estimate, which could result in sustained losses.

We Rely On A Limited Number Of Third Parties For Manufacture And Supply Of Certain Of Our Critical Laboratory Instruments And Materials, And We May Not Be Able To Find Replacement Suppliers Or Manufacturers In A Timely Manner In The Event Of Any Disruption, Which Could Adversely Affect Our Business.

We rely on third parties for the manufacture and supply of some of our critical laboratory instruments, equipment and materials that we need to perform our specialized diagnostic services, and rely on a limited number of suppliers for certain laboratory materials and some of the laboratory equipment with which we perform our diagnostic services. We do not have long-term contracts with our suppliers and manufacturers that commit them to supply equipment and materials to us. Because we cannot ensure the actual production or manufacture of such critical equipment and materials, or the ability of our suppliers to comply with applicable legal and regulatory requirements, we may be subject to significant delays caused by interruption in production or manufacturing. If any of our third party suppliers or manufacturers were to become unwilling or unable to provide this equipment or these materials in required quantities or on our required timelines, we would need to identify and acquire acceptable replacement sources on a timely basis. While we have developed alternate sourcing strategies for the equipment and materials we use, we cannot be certain that these strategies will be effective and even if we were to identify other suppliers and manufacturers for the equipment and materials we need to perform our specialized diagnostic services, there can be no assurance that we will be able to enter into agreements with such suppliers and manufacturers or otherwise obtain such items on a timely basis or on acceptable terms, if at all. If we encounter delays or difficulties in securing necessary laboratory equipment or materials, including consumables, we would face an interruption in our ability to perform our specialized diagnostic services and experience other disruptions that would adversely affect our business, results of operations and financial condition.

We May Face Fluctuations In Results Of Operations Which Could Negatively Affect Our Business Operations And We Are Subject To Seasonality In Our Business

As a result of our limited operating history and the relatively limited information available on our competitors, we may not have sufficient internal or industry-based historical financial data upon which to calculate anticipated operating expenses. Management expects that our results of operations may also fluctuate significantly in the future as a result of a variety of factors, including, but not limited to: (i) the continued rate of growth, usage and acceptance of our products and services; (ii) demand for our products and services; (iii) the introduction and acceptance of new or enhanced products or services by us or by competitors; (iv) our ability to anticipate and effectively adapt to developing markets and to rapidly changing technologies; (v) our ability to attract, retain and motivate qualified personnel; (vi) the initiation, renewal or expiration of significant contracts with our major clients; (vii) pricing changes by us, our suppliers or our competitors; (viii) seasonality; and (ix) general economic conditions and other factors. Accordingly, future sales and operating results are difficult to forecast. Our expenses are based in part on our expectations as to future revenues and to a significant extent are relatively fixed, at least in the short-term. We may not be able to adjust spending in a timely manner to compensate for any unexpected revenue shortfall. Accordingly, any significant shortfall in relation to our expectations would have an immediate adverse impact on our business, results of operations and financial condition. In addition, we may determine from time to time to make certain pricing or marketing decisions or acquisitions that could have a short-term material adverse affect on our business, results of operations and financial condition and may not result in the long-term benefits intended. Furthermore, in Florida, currently our primary referral market for lab testing services, a meaningful percentage of the population, returns to homes in the Northern U.S. to avoid the hot summer months. This may result in seasonality in our business. Because of all of the foregoing factors, our operating results could be less than the expectations of investors in future periods.

We Substantially Depend Upon Third Parties For Payment Of Services, Which Could Have A Material Adverse Affect On Our Cash Flows And Results Of Operations

The Company is a clinical medical laboratory that provides medical testing services to doctors, hospitals, and other laboratories on patient specimens that are sent to the Company. In the case of most specimen referrals that are

received for patients that are not in-patients at a hospital or institution or otherwise sent by another reference laboratory, the Company generally has to bill the patient's insurance company or a government program for its services. As such it relies on the cooperation of numerous third party payors, including but not limited to Medicare, Medicaid and various insurance companies, in order to get paid for performing services on behalf of the Company's clients. Wherever possible, the amount of such third party payments is governed by contractual relationships in cases where the Company is a participating provider for a specified insurance company or by established government reimbursement rates in cases where the Company is an approved provider for a government program such as Medicare. However, the Company does not have a contractual relationship with many of the insurance companies with whom it deals, nor is it necessarily able to become an approved provider for all government programs. In such cases, the Company is deemed to be a non-participating provider and there is no contractual assurance that the Company is able to collect the amounts billed to such insurance companies or government programs. Currently, the Company is not a participating provider with the majority of the insurance companies it bills for its services. Until such time as the Company becomes a participating provider with such insurance companies, there can be no contractual assurance that the Company will be paid for the services it bills to such insurance companies, and such third parties may change their reimbursement policies for non-participating providers in a manner that may have a material adverse effect on the Company's cash flow or results of operations.

**Our Business Is Subject To Rapid Scientific Change, Which Could Have A Material Adverse Affect On Our Business, Results of Operations And Financial Condition**

The market for genetic and molecular testing services is characterized by rapid scientific developments, evolving industry standards and customer demands, and frequent new product introductions and enhancements. Our future success will depend in significant part on our ability to continually improve our offerings in response to both evolving demands of the marketplace and competitive service offerings, and we may be unsuccessful in doing so.

**The Market For Our Services Is Highly Competitive, Which Could Have A Material Adverse Affect On Our Business, Results Of Operations And Financial Condition**

The market for genetic and molecular testing services is highly competitive and competition is expected to continue to increase. We compete with other commercial medical laboratories in addition to the in-house laboratories of many major hospitals. Many of our existing competitors have significantly greater financial, human, technical and marketing resources than we do. Our competitors may develop products and services that are superior to ours or that achieve greater market acceptance than our offerings. We may not be able to compete successfully against current and future sources of competition and in such case, this may have a material adverse effect on our business, results of operations and financial condition.

**We Face The Risk of Capacity Constraints, Which Could Have A Material Adverse Affect On Our Business, Results Of Operations And Financial Condition**

We compete in the market place primarily on three factors: a) the quality and accuracy of our test results; b) the speed or turn-around times of our testing services; and c) our ability to provide after-test support to those physicians requesting consultation. Any unforeseen increase in the volume of customers could strain the capacity of our personnel and systems, which could lead to inaccurate test results, unacceptable turn-around times, or customer service failures. In addition, as the number of customers and cases increases, our products, services, and infrastructure may not be able to scale accordingly. Any failure to handle higher volume of requests for our products and services could lead to the loss of established customers and have a material adverse effect on our business, results of operations and financial condition.

If we produce inaccurate test results, our customers may choose not to use us in the future. This could severely harm our business, results of operations and financial condition. In addition, based on the importance of the subject matter of our tests, inaccurate results could result in improper treatment of patients, and potential liability for us.

**We May Fail to Protect Our Facilities, Which Could Have A Material Adverse Affect On Our Business, Results Of Operations And Financial Condition**

The Company's operations are dependent in part upon its ability to protect its laboratory operations against physical damage from fire, floods, hurricanes, power loss, telecommunications failures, break-ins and similar events. The Company does not presently have an emergency back-up generator in place at its Fort Myers, Florida, Nashville, Tennessee or Irvine, California laboratory locations that can mitigate to some extent the effects of a prolonged power outage. The occurrence of any of these events could result in interruptions, delays or cessations in service to customers, which could have a material adverse effect on our business, results of operations and financial condition.

**The Steps Taken By The Company To Protect Its Proprietary Rights May Not Be Adequate, Which Could Result In Infringement Or Misappropriation By Third-Parties**

We regard our copyrights, trademarks, trade secrets and similar intellectual property as critical to our success, and we rely upon trademark and copyright law, trade secret protection and confidentiality and/or license agreements with our

employees, customers, partners and others to protect our proprietary rights. The steps taken by us to protect our proprietary rights may not be adequate or third parties may infringe or misappropriate our copyrights, trademarks, trade secrets and similar proprietary rights. In addition, other parties may assert infringement claims against us.

### We Are Dependent On Key Personnel And Need To Hire Additional Qualified Personnel In Order For Our Business To Succeed

Our performance is substantially dependent on the performance of our senior management and key technical personnel. In particular, our success depends substantially on the continued efforts of our senior management team, which currently is composed of a small number of individuals. The loss of the services of any of our executive officers, our laboratory director or other key employees could have a material adverse effect on our business, results of operations and our financial condition.

Our future success also depends on our continuing ability to attract and retain highly qualified technical and managerial personnel. Competition for such personnel is intense and we may not be able to retain our key managerial and technical employees or may not be able to attract and retain additional highly qualified technical and managerial personnel in the future. The inability to attract and retain the necessary technical and managerial personnel could have a material adverse effect upon our business, results of operations and financial condition.

### The Failure to Obtain Necessary Additional Capital To Finance Growth And Capital Requirements, Could Adversely Affect Our Business, Financial Condition And Results of Operations

We may seek to exploit business opportunities that require more capital than what is currently planned. We may not be able to raise such capital on favorable terms or at all. If we are unable to obtain such additional capital, we may be required to reduce the scope of our anticipated expansion, which could adversely affect our business, financial condition and results of operations.

We only have the right to receive \$50,000 every four business days under the Purchase Agreement unless our stock price equals or exceeds \$0.75, in which case we can sell greater amounts to Fusion Capital as the price of our common stock increases. Fusion Capital shall not have the right nor the obligation to purchase any shares of our common stock on any business day that the market price of our common stock is less than \$0.45. Since we are registering 3,000,000 shares for sale under the Purchase Agreement by Fusion Capital pursuant to the registration statement of which this prospectus is a part, the selling price of our common stock to Fusion Capital will have to average at least \$2.67 per share for us to receive the maximum proceeds of \$8.0 million. Assuming a purchase price of \$0.69 per share (the closing sale price of the common stock on January 21, 2009) and the purchase by Fusion Capital of the full 3,000,000 shares under the Purchase Agreement, proceeds to us would only be \$2,070,000 unless we choose to register more than 3,000,000 shares, which we have the right, but not the obligation, to do. Subject to approval by our board of directors, we have the right but not the obligation to sell more than 3,000,000 shares to Fusion Capital. In the event we elect to sell more than 3,000,000 shares offered hereby, we will be required to file a new registration statement and have it declared effective by the U.S. Securities & Exchange Commission.

The extent we rely on Fusion Capital as a source of funding will depend on a number of factors, including the prevailing market price of our common stock and the extent to which we are able to secure working capital from other sources. Specifically, Fusion Capital shall not have the right nor the obligation to purchase any shares of our common stock on any business days that the market price of our common stock is less than \$0.45. If obtaining sufficient financing from Fusion Capital were to prove unavailable or prohibitively dilutive and if we are unable to sell enough of our products, we will need to secure another source of funding in order to satisfy our working capital needs. Even if we are able to access the full \$8.0 million under the Purchase Agreement with Fusion Capital, we may still need additional capital to fully implement our business, operating and development plans. Should the financing we require to sustain our working capital needs be unavailable or prohibitively expensive when we require it, the consequences could be a material adverse effect on our business, operating results, financial condition and prospects.

### Our Net Revenue Will Be Diminished If Payors Do Not Adequately Cover Or Reimburse Our Services

There has been and will continue to be significant efforts by both federal and state agencies to reduce costs in government healthcare programs and otherwise implement government control of healthcare costs. In addition, increasing emphasis on managed care in the U.S. may continue to put pressure on the pricing of healthcare services. Uncertainty exists as to the coverage and reimbursement status of new applications or services. Third party payors, including governmental payors such as Medicare and private payors, are scrutinizing new medical products and services and may not cover or may limit coverage and the level of reimbursement for our services. Third party insurance coverage may not be available to patients for any of our existing assays or assays we discover and develop. However, a substantial portion of the testing for which we bill our hospital and laboratory clients is ultimately paid by third party payors. Any pricing pressure exerted by these third party payors on our customers may, in turn, be exerted by our customers on us. If government and other third party payors do not provide adequate coverage and reimbursement for our assays, our operating results, cash flows or financial condition may decline.

### Third Party Billing Is Extremely Complicated And Will Result In Significant Additional Costs To Us

Billing for laboratory services is extremely complicated. The customer refers the tests; the payor is the party that pays for the tests, and the two are not always the same. Depending on the billing arrangement and applicable law, we need to bill various payors, such as patients, insurance companies, Medicare, Medicaid, doctors and employer groups, all of which have different billing requirements. Additionally, our billing relationships require us to undertake internal audits to evaluate compliance with applicable laws and regulations as well as internal compliance policies and procedures. Insurance companies also impose routine external audits to evaluate payments made. This adds further complexity to the billing process.

Among many other factors complicating billing are:

- pricing differences between our fee schedules and the reimbursement rates of the payors;
- disputes with payors as to which party is responsible for payment; and
- disparity in coverage and information requirements among various carriers.

We incur significant additional costs as a result of our participation in the Medicare and Medicaid programs, as billing and reimbursement for clinical laboratory testing are subject to considerable and complex federal and state regulations. The additional costs we expect to incur include those related to: (1) complexity added to our billing processes; (2) training and education of our employees and customers; (3) implementing compliance procedures and oversight; (4) collections and legal costs; and (5) costs associated with, among other factors, challenging coverage and payment denials and providing patients with information regarding claims processing and services, such as advanced beneficiary notices.

### Our Operations Are Subject To Strict Laws Prohibiting Fraudulent Billing And Other Abuse, And Our Failure To Comply With Such Laws Could Result In Substantial Penalties

Of particular importance to our operations are federal and state laws prohibiting fraudulent billing and providing for the recovery of non-fraudulent overpayments, as a large number of laboratories have been forced by the federal and state governments, as well as by private payors, to enter into substantial settlements under these laws. In particular, if an entity is determined to have violated the federal False Claims Act, it may be required to pay up to three times the actual damages sustained by the government, plus civil penalties of between \$5,500 to \$11,000 for each separate false claim. There are many potential bases for liability under the federal False Claims Act. Liability arises, primarily, when an entity knowingly submits, or causes another to submit, a false claim for reimbursement to the federal government. Submitting a claim with reckless disregard or deliberate ignorance of its truth or falsity could result in substantial civil liability. A trend affecting the healthcare industry is the increased use of the federal False Claims Act and, in particular, actions under the False Claims Act's "whistleblower" or "qui tam" provisions to challenge providers and suppliers. Those provisions allow a private individual to bring actions on behalf of the government alleging that the defendant has submitted a fraudulent claim for payment to the federal government. The government must decide whether to intervene in the lawsuit and to become the primary prosecutor. If it declines to do so, the individual may choose to pursue the case alone, although the government must be kept apprised of the progress of the lawsuit. Whether or not the federal government intervenes in the case, it will receive the majority of any recovery. In addition, various states have enacted laws modeled after the federal False Claims Act.

Government investigations of clinical laboratories have been ongoing for a number of years and are expected to continue in the future. Written "corporate compliance" programs to actively monitor compliance with fraud laws and other regulatory requirements are recommended by the Department of Health and Human Services' Office of the Inspector General.

**The Failure To Comply With Significant Government Regulation And Laboratory Operations May Subject The Company To Liability, Penalties Or Limitation Of Operations**

As discussed in the Government Regulation section of our business description, we are subject to extensive state and federal regulatory oversight. Our laboratory locations may not pass inspections conducted to ensure compliance with CLIA '88 or with any other applicable licensure or certification laws. The sanctions for failure to comply with CLIA '88 or state licensure requirements might include the inability to perform services for compensation or the suspension, revocation or limitation of the laboratory location's CLIA '88 certificate or state license, as well as civil and/or criminal penalties. In addition, any new legislation or regulation or the application of existing laws and regulations in ways that we have not anticipated could have a material adverse effect on the Company's business, results of operations and financial condition.

Existing federal laws governing Medicare and Medicaid, as well as some other state and federal laws, also regulate certain aspects of the relationship between healthcare providers, including clinical and anatomic laboratories, and their referral sources, including physicians, hospitals and other laboratories. Certain provisions of these laws, known as the "anti-kickback law" and the "Stark Laws", contain extremely broad proscriptions. Violation of these laws may result in criminal penalties, exclusion from Medicare and Medicaid, and significant civil monetary penalties. We will seek to structure our arrangements with physicians and other customers to be in compliance with the anti-kickback, Stark and state laws, and to keep up-to-date on developments concerning their application by various means, including consultation with legal counsel. However, we are unable to predict how these laws will be applied in the future and the arrangements into which we enter may become subject to scrutiny thereunder.

Furthermore, the Health Insurance Portability and Accountability Act of 1996 ("HIPAA"), and other state laws contains provisions that affect the handling of claims and other patient information that are, or have been, transmitted electronically and regulate the general disclosure of patient records and patient health information. These provisions, which address security and confidentiality of patient information as well as the administrative aspects of claims handling, have very broad applicability and they specifically apply to healthcare providers, which include physicians and clinical laboratories. Although we believe we have complied with the Standards, Security and Privacy rules under HIPAA and state laws, an audit of our procedures and systems could find deficiencies. Such deficiencies, if found, could have a material adverse effect on the Company's business, results of operations and financial condition and subject us to liability.

#### We Are Subject To Security Risks Which Could Harm Our Operations

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

#### We Are Effectively Controlled By Existing Stockholders And Therefore Other Stockholders Will Not Be Able To Direct The Company

Effective voting control of the Company is held by a relatively small group of stockholders. These stockholders effectively retain control of our Board of Directors and determine all of our corporate actions. In addition, the Company and stockholders owning and/or having the right to vote 11,737,417 shares, or approximately 36.6% of the Company's voting shares outstanding as of December 31, 2008 have executed a Shareholders' Agreement that, among other provisions, gives Aspen, our largest stockholder, the right to elect three out of the seven directors authorized for our Board, and nominate one mutually acceptable independent director. Accordingly, it is anticipated that Aspen and other parties to the Shareholders' Agreement will continue to have the ability to effectively elect a controlling number of the members of our Board of Directors. Such concentration of ownership may also have the effect of delaying or preventing a change in control of the Company.

#### No Foreseeable Dividends

We do not anticipate paying dividends on our common stock in the foreseeable future. Rather, we plan to retain earnings, if any, for the operation and expansion of our business.

There May Not Be A Viable Public Market For Our Common Stock

We cannot predict the extent to which investor interest in our Company will sustain an active trading market for our common stock on the Over-The-Counter Bulletin Board or any other stock market or how liquid any such market might remain. If an active public market is not sustained, it may be difficult for our stockholders to sell their shares of common stock at a price that is attractive to them, or at all.

**We May Become Involved In Securities Class Action Litigation That Could Divert Management's Attention And Harm Our Business.**

The stock markets have from time to time experienced significant price and volume fluctuations that have affected the market prices for the common stock of diagnostic companies. These broad market fluctuations may cause the market price of our common stock to decline. In the past, securities class action litigation has often been brought against a company following a decline in the market price of its securities. This risk is especially relevant for us because clinical laboratory service companies have experienced significant stock price volatility in recent years. We may become involved in this type of litigation in the future. Litigation often is expensive and diverts management's attention and resources, which could adversely affect our business.

**If We Are Not The Subject Of Securities Analyst Reports Or If Any Securities Analyst Downgrades Our Common Stock Or Our Sector, The Price Of Our Common Stock Could Be Negatively Affected.**

Securities analysts may publish reports about us or our industry containing information about us that may affect the trading price of our common stock. There are many publicly traded companies active in the healthcare industry, which may mean it will be less likely that we receive analysts' coverage, which in turn could affect the price of our common stock. In addition, if a securities or industry analyst downgrades the outlook for our common stock or one of our competitors' stocks or chooses to terminate coverage of our common stock, the trading price of our common stock may also be negatively affected.

**Changes In Regulations, Payor Policies Or Contracting Arrangements With Payors Or Changes In Other Laws, Regulations Or Policies May Adversely Affect Coverage Or Reimbursement For Our Specialized Diagnostic Services, Which May Decrease Our Revenues And Adversely Affect Our Results Of Operations And Financial Condition.**

Governmental payors, as well as private insurers and private payors, have implemented and will continue to implement measures to control the cost, utilization and delivery of healthcare services, including clinical laboratory and pathology services. Congress has from time to time considered and implemented changes to laws and regulations governing healthcare service providers, including specialized diagnostic service providers. These changes have adversely affected and may in the future adversely affect coverage for our services. We also believe that healthcare professionals will not use our services if third party payors do not provide adequate coverage and reimbursement for them. These changes in federal, state, local and third party payor regulations or policies may decrease our revenues and adversely affect our results of operations and financial condition. We will continue to be a non-contracting provider until such time as we enter into contracts with third party payors for whom we are not currently contracted. Because a portion of our revenues is from third-party payors with whom we are not currently contracted, it is likely that we will be required to make positive or negative adjustments to accounting estimates with respect to contractual allowances in the future, which may adversely affect our results of operations, our credibility with financial analysts and investors, and our stock price.

**We Must Hire And Retain Qualified Sales Representatives To Grow Our Sales.**

Our ability to retain existing customers for our specialized diagnostic services and attract new customers is dependent upon retaining existing sales representatives and hiring new sales representatives, which is an expensive and time-consuming process. We face intense competition for qualified sales personnel and our inability to hire or retain an adequate number of sales representatives could limit our ability to maintain or expand our business and increase sales. Even if we are able to increase our sales force, our new sales personnel may not commit the necessary resources or provide sufficient high quality service and attention to effectively market and sell our services. If we are unable to maintain and expand our marketing and sales networks or if our sales personnel do not perform to our high standards, we may be unable to maintain or grow our existing business and our results of operations and financial condition will likely suffer accordingly. If a sales representative ceases employment, we risk the loss of customer goodwill based on

the impairment of relationships developed between the sales representative and the healthcare professionals for whom the sales representative was responsible. This is particularly a risk if the representative goes to work for a competitor, as the healthcare professionals that are our customers may choose to use a competitor's services based on their relationship with the departed sales representative.

We Are Currently Expanding Our Infrastructure, Including Through The Acquisition And Development Of Additional Office Space And The Expansion Of Our Current Laboratory Capacity At Our Existing Facilities, And We Intend To Further Expand Our Infrastructure By Establishing A New Laboratory Facility Which, Among Other Things, Could Divert Our Resources And May Cause Our Margins To Suffer.

In November 2007, we entered into a lease which expires on June 30, 2010 for additional office space in Fort Myers, Florida to house our expanding Florida laboratory, administrative, sales, billing and client services departments. During the first half of 2008, we initiated construction to expand our current laboratory capacity by building out unimproved areas within our existing Florida facility. Each expansion of our facilities or systems could divert resources, including the focus of our management, away from our current business. In addition, expansions of our facilities may increase our costs and potentially decrease operating margins, both of which would, individually or in the aggregate, negatively impact our business, financial condition and results of operations.

Performance Issues, Service Interruptions Or Price Increases By Our Shipping Carrier Could Adversely Affect Our Business, Results Of Operations And Financial Condition, And Harm Our Reputation And Ability To Provide Our Specialized Diagnostic Services On A Timely Basis.

Expedited, reliable shipping is essential to our operations. One of our marketing strategies entails highlighting the reliability of our point-to-point transport of patient samples. We rely heavily on a single carrier, Federal Express, and also our local courier, for reliable and secure point-to-point transport of patient samples to our laboratory and enhanced tracking of these patient samples. Should Federal Express encounter delivery performance issues such as loss, damage or destruction of a sample, it may be difficult to replace our patient samples in a timely manner and such occurrences may damage our reputation and lead to decreased demand for our services and increased cost and expense to our business. In addition, any significant increase in shipping rates could adversely affect our operating margins and results of operations. Similarly, strikes, severe weather, natural disasters or other service interruptions by delivery services we use would adversely affect our ability to receive and process patient samples on a timely basis. If Federal Express or we were to terminate our relationship, we would be required to find another party to provide expedited, reliable point-to-point transport of our patient samples. There are only a few other providers of such nationwide transport services, and there can be no assurance that we will be able to enter into arrangements with such other providers on acceptable terms, if at all. Finding a new provider of transport services would be time-consuming and costly and result in delays in our ability to provide our specialized diagnostic services. Even if we were to enter into an arrangement with such provider, there can be no assurance that they will provide the same level of quality in transport services currently provided to us by Federal Express. If the new provider does not provide the required quality and reliable transport services, it could adversely affect our business, reputation, results of operations and financial condition.

We Use Biological And Hazardous Materials That Require Considerable Expertise And Expense For Handling, Storage Or Disposal And May Result In Claims Against Us.

We work with hazardous materials, including chemicals, biological agents and compounds, blood samples and other human tissue that could be dangerous to human health and safety or the environment. Our operations also produce hazardous and biohazardous waste products. Federal, state and local laws and regulations govern the use, generation, manufacture, storage, handling and disposal of these materials and wastes. Compliance with applicable environmental laws and regulations may be expensive, and current or future environmental laws and regulations may impair business efforts. If we do not comply with applicable regulations, we may be subject to fines and penalties. In addition, we cannot entirely eliminate the risk of accidental injury or contamination from these materials or wastes. Our general liability insurance and/or workers' compensation insurance policy may not cover damages and fines arising from biological or hazardous waste exposure or contamination. Accordingly, in the event of contamination or injury, we could be held liable for damages or penalized with fines in an amount exceeding our resources, and our operations could be suspended or otherwise adversely affected.

**Our Failure To Comply With Governmental Payor Regulations Could Result In Our Being Excluded From Participation In Medicare, Medicaid Or Other Governmental Payor Programs, Which Would Decrease Our Revenues And Adversely Affect Our Results Of Operations And Financial Condition.**

Billable tests which are reimbursable from Medicare and Medicaid accounted for approximately 46.9% and 51.6% of our revenues for the nine months ended September 30, 2008 and 2007, respectively. The Medicare program imposes extensive and detailed requirements on diagnostic services providers, including, but not limited to, rules that govern how we structure our relationships with physicians, how and when we submit reimbursement claims and how we provide our specialized diagnostic services. Our failure to comply with applicable Medicare, Medicaid and other governmental payor rules could result in our inability to participate in a governmental payor program, our returning funds already paid to us, civil monetary penalties, criminal penalties and/or limitations on the operational function of our laboratory. If we were unable to receive reimbursement under a governmental payor program, a substantial portion of our revenues would be lost, which would adversely affect our results of operations and financial condition.

#### Our Business Could Be Harmed By Future Interpretations Of Clinical Laboratory Mark-Up Prohibitions.

Our laboratory currently uses the services of outside reference laboratories to provide certain complementary laboratory services to those services provided directly by our laboratory. Although Medicare policies do not prohibit certain independent-laboratory-to-independent-laboratory referrals and subsequent mark-up for services, California and other states have rules and regulations that prohibit or limit the mark-up of these laboratory-to-laboratory services. A challenge to our charge-setting procedures under these rules and regulations could have a material adverse effect on our business, results of operations and financial condition.

#### Failure To Comply With The HIPAA Security And Privacy Regulations May Increase Our Operational Costs.

The HIPAA privacy and security regulations establish comprehensive federal standards with respect to the uses and disclosures of Protected Health Information, or PHI, by health plans and healthcare providers, in addition to setting standards to protect the confidentiality, integrity and availability of electronic PHI. The regulations establish a complex regulatory framework on a variety of subjects, including the circumstances under which uses and disclosures of PHI are permitted or required without a specific authorization by the patient, including but not limited to treatment purposes, activities to obtain payments for services and healthcare operations activities; a patient's rights to access, amend and receive an accounting of certain disclosures of PHI; the content of notices of privacy practices for PHI; and administrative, technical and physical safeguards required of entities that use or receive PHI electronically. We have implemented policies and procedures related to compliance with the HIPAA privacy and security regulations, as required by law. The privacy regulations establish a uniform federal "floor" and do not supersede state laws that are more stringent. Therefore, we are required to comply with both federal privacy regulations and varying state privacy laws. The federal privacy regulations restrict our ability to use or disclose patient identifiable laboratory data, without patient authorization, for purposes other than payment, treatment or healthcare operations (as defined by HIPAA), except for disclosures for various public policy purposes and other permitted purposes outlined in the privacy regulations. The privacy and security regulations provide for significant fines and other penalties for wrongful use or disclosure of PHI, including potential civil and criminal fines and penalties. Although the HIPAA statute and regulations do not expressly provide for a private right of damages, we also could incur damages under state laws to private parties for the wrongful use or disclosure of confidential health information or other private personal information.

#### Our Ability To Comply With The Financial Covenants In Our Credit Agreements Depends Primarily On Our Ability To Generate Substantial Operating Cash Flow.

Our ability to comply with the financial covenants under the agreement with CapitalSource Funding, LLC will depend primarily on our success in generating substantial operating cash flow. Our credit agreement contains numerous financial and other restrictive covenants, including restrictions on purchasing and selling assets, paying dividends to our shareholders, and incurring additional indebtedness. Our failure to meet these covenants could result in a default and acceleration of repayment of the indebtedness under our credit facility. If the maturity of our indebtedness were accelerated, we may not have sufficient funds to pay such indebtedness. In such event, our lenders would be entitled to proceed against the collateral securing the indebtedness, which includes substantially our entire accounts receivable, to the extent permitted by our credit agreements and applicable law.

#### We Have Potential Conflicts Of Interest Relating To Our Related Party Transactions Which Could Harm Our Business.

We have potential conflicts of interest relating to existing agreements we have with certain of our directors, officers, principal shareholders, shareholders and employees. Potential conflicts of interest can exist if a related party director or officer has to make a decision that has different implications for us and the related party. If a dispute arises in connection with any of these agreements, if not resolved satisfactorily to us, our business could be harmed. There can

be no assurance that the above or any future conflicts of interest will be resolved in our favor. If not resolved, such conflicts could harm our business.

**We Have Material Weaknesses In Our Internal Control Over Financial Reporting That May Prevent The Company From Being Able To Accurately Report Its Financial Results Or Prevent Fraud, Which Could Harm Its Business And Operating Results.**

Effective internal controls are necessary for us to provide reliable and accurate financial reports and prevent fraud. In addition, Section 404 under the Sarbanes-Oxley Act of 2002 requires that we assess the design and operating effectiveness of internal control over financial reporting. If we cannot provide reliable and accurate financial reports and prevent fraud, our business and operating results could be harmed. We have discovered, and may in the future discover, areas of internal controls that need improvement. We identified four material weaknesses in our internal controls as of December 31, 2007. These matters and our efforts regarding remediation of these matters, as well as efforts regarding internal controls generally are discussed in detail in our Annual Report on Form 10-KSB. However, as our material weaknesses in internal controls demonstrate, we cannot be certain that the remedial measures taken to date will ensure that we design, implement, and maintain adequate controls over financial processes and reporting in the future. Remedying the material weaknesses that have been presently identified, and any additional deficiencies, significant deficiencies or material weaknesses that we may identify in the future, could require us to incur significant costs, hire additional personnel, expend significant time and management resources or make other changes. Disclosure of our material weaknesses, any failure to remediate such material weaknesses in a timely fashion or having or maintaining ineffective internal controls could cause investors to lose confidence in our reported financial information, which could have a negative effect on the trading price of our common stock and access to capital.

### Risks Related To This Offering

#### The Sale Of Our Common Stock To Fusion Capital May Cause Dilution And The Sale Of The Shares Of Common Stock Acquired By Fusion Capital Could Cause The Price Of Our Common Stock To Decline

In connection with entering into the Purchase Agreement, we authorized the sale to Fusion Capital of up to 3,000,000 shares of our common stock. The number of shares ultimately offered for sale by Fusion Capital under this prospectus is dependent upon the number of shares purchased by Fusion Capital under the Purchase Agreement. The purchase price for the common stock to be sold to Fusion Capital pursuant to the Purchase Agreement will fluctuate based on the price of our common stock. Specifically, under the Purchase Agreement for purchases up to \$50,000, the purchase price would be equal to the lesser of: (i) the lowest sale price of the Company's common stock on the purchase date; or (ii) the average of the three lowest closing sale prices of the Company's common stock during the twelve consecutive business days prior to the date of a purchase by Fusion Capital. The price at which the Company's common stock would be purchased for purchases in excess of \$50,000 will be the lesser of: (i) the lowest sale price of the Company's common stock on the purchase date and (ii) the lowest purchase price (as described above) during the previous seven business days prior to the purchase date. Therefore, at the time of our sales to Fusion Capital, it is likely that the purchase price to Fusion Capital will be below the then market price.

All 3,417,500 shares registered in this offering related to the Fusion Capital transaction are expected to be freely tradable. It is anticipated that such shares will be sold over a period of up to 30 months from the date of this prospectus. Depending upon market liquidity at the time, a sale of shares under this offering at any given time could cause the trading price of our common stock to decline. Fusion Capital may ultimately purchase all, some or none of the 3,000,000 shares of common stock not yet issued but registered in this offering. Such shares may be sold by us to Fusion Capital at a sale price below the then market price of our shares which would be dilutive to the value of shares held by our other shareholders.

After Fusion Capital has acquired such shares, it may sell all, some or none of such shares. Under the Purchase Agreement, we have the right but not the obligation to sell more than the 3,000,000 shares to Fusion Capital. As of the date hereof, we do not currently have any plans or intent to sell to Fusion Capital any shares beyond the 3,000,000 shares offered hereby. However, if we elect to sell more than the 3,000,000 shares (which we have the right but not the obligation to do), we must first register such additional shares under the Securities Act before we can elect to sell such additional shares to Fusion Capital. In the event we elect to do so, this could cause substantial dilution to the ownership interests of our shareholders. The number of shares ultimately offered for sale by Fusion Capital is dependent upon the number of shares purchased by Fusion Capital under the Purchase Agreement. Moreover, the sale of a substantial number of shares of our common stock under this offering, or anticipation of such sales, could make it more difficult for us to sell equity or equity-related securities in the future at a time and at a price that we might otherwise wish to effect sales. However, we have the right to control the timing and amount of any sales of our shares to Fusion Capital and the Purchase Agreement may be terminated by us at any time at our discretion without any further cost to us.

#### Future Sales By Our Stockholders May Adversely Affect Our Stock Price And Our Ability To Raise Funds In New Stock Offerings

Sales of our common stock in the public market following this offering could lower the market price of our common stock. Sales may also make it more difficult for us to sell equity securities or equity-related securities in the future at a time and price that our management deems acceptable or at all. Of the 32,122,382 shares of common stock outstanding as of January 21, 2009, 22,619,816 shares are freely tradable without restriction, unless held by our "affiliates". The remaining 9,502,566 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.

**The Selling Stockholders May Sell Their Shares Of Common Stock In The Market, Which Sales May Cause Our Stock Price To Decline**

The selling stockholders may sell in the public market 6,500,000 shares of our common stock being registered in this offering. That means that up to 6,500,000 shares may be sold pursuant to this prospectus. Such sales may cause our stock price to decline.

**The Price You Pay In This Offering Will Fluctuate And May Be Higher Or Lower Than The Prices Paid By Other People Participating In This Offering**

The price in this offering will fluctuate based on the prevailing market price of our common stock on the Over-The-Counter Bulletin Board. Accordingly, the price you pay in this offering may be higher or lower than the prices paid by other people participating in this offering.

### The Market Price Of Our Common Stock Is Highly Volatile.

The market price of our common stock has been and is expected to continue to be highly volatile. Factors, including announcements of technological innovations by us or other companies, regulatory matters, new or existing products or procedures, concerns about our financial position, operating results, litigation, government regulation, developments or disputes relating to agreements, patents or proprietary rights, may have a significant impact on the market price of our common stock. In addition, potential dilutive effects of future sales of shares of common stock by stockholders and by the Company, including Fusion Capital and the other selling stockholders pursuant to this prospectus, and subsequent sale of common stock by the holders of warrants and options could have an adverse effect on the market price of our shares.

### Our Common Stock Is Deemed To Be “Penny Stock”, Which May Make It More Difficult For Investors To Sell Their Shares Due To Suitability Requirements

Our common stock is deemed to be “penny stock” as that term is defined in Rule 3a51-1 promulgated under the Securities Exchange Act of 1934, as amended (the “Exchange Act”). Penny stocks are stocks:

- With a price of less than \$5.00 per share;
  - That are not traded on a “recognized” national exchange;
  - Whose prices are not quoted on the Nasdaq automated quotation system;
- Nasdaq stocks that trade below \$5.00 per share are deemed a “penny stock” for purposes of Section 15(b)(6) of the Exchange Act;
- In issuers with net tangible assets less than \$2.0 million (if the issuer has been in continuous operation for at least three years) or \$5.0 million (if in continuous operation for less than three years), or with average revenues of less than \$6.0 million for the last three years.
- Broker/dealers dealing in penny stocks are required to provide potential investors with a document disclosing the risks of penny stocks. Moreover, broker/dealers are required to determine whether an investment in a penny stock is a suitable investment for a prospective investor. These requirements may reduce the potential market for our common stock by reducing the number of potential investors. This may make it more difficult for investors in our common stock to sell shares to third parties or to otherwise dispose of them. This could cause our stock price to decline.

## FORWARD-LOOKING STATEMENTS

Information included or incorporated by reference in this prospectus may contain forward-looking statements. This information may involve known and unknown risks, uncertainties and other factors which may cause our actual results, performance or achievements to be materially different from the future results, performance or achievements expressed or implied by any forward-looking statements. Forward-looking statements, which involve assumptions and describe our future plans, strategies and expectations, are generally identifiable by use of the words “may”, “should”, “expect”, “anticipate”, “estimate”, “believe”, “intend” or “project” or the negative of these words or other variations on these words or comparable terminology.

This prospectus contains forward-looking statements, including statements regarding, among other things, (a) our projected sales and profitability, (b) our growth strategies, (c) anticipated trends in our industry, (d) our future financing plans and (e) our anticipated needs for working capital. These statements may be found under “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Description of Business”, as well as in this prospectus generally. Actual events or results may differ materially from those discussed in forward-looking statements as a result of various factors, including, without limitation, the risks outlined under “Risk Factors” and matters described in this prospectus generally. In light of these risks and uncertainties, there can be no assurance that the forward-looking statements contained in this prospectus will in fact occur.

## SELLING STOCKHOLDERS

The following table presents information regarding our selling stockholders who intend to sell up to 6,500,000 shares of our common stock.

Selling Stockholders	Shares Beneficially Owned Before Offering(1)	Percentage of Outstanding Shares Beneficially Owned Before Offering(1)	Shares To Be Sold In The Offering	Percentage of Outstanding Shares Beneficially Owned After The Offering
Fusion Capital Fund II, LLC(2)	417,500	1.3%	3,417,500	0.0%
Aspen Select Healthcare, LP(3)	11,815,220	33.6%	2,130,364	26.9%
Mary S. Dent(4)	2,642,130	8.1%	553,488	6.0%
Steven C. Jones(5)	13,055,386	36.7%	238,826	29.3%
Jones Network, LP(6)	107,143	*	107,143	0.0%
Marvin E. Jaffe(7)	63,096	*	21,429	*
Steven C. Jones ROTH IRA(8)	20,450	*	18,750	*
Peter M. Peterson(9)	11,926,862	33.8%	12,500	25.6%
Total(10):	16,257,280	44.9%	6,500,000	35.7%

\* Less than one percent (1%).

(1) Applicable percentage of ownership is based on 32,117,237 shares of our common stock outstanding as of December 31, 2008, together with securities exercisable or convertible into shares of common stock within sixty (60) days of December 31, 2008, for each stockholder. Beneficial ownership is determined in accordance with the rules of the SEC and generally includes voting or investment power with respect to securities. Shares of common stock are deemed to be beneficially owned by the person holding such securities for the purpose of computing the percentage of ownership of such person, but are not treated as outstanding for the purpose of computing the percentage ownership of any other person. Note that affiliates are subject to Rule 144 and insider trading regulations - percentage computation is for form purposes only.

(2) Steven G. Martin and Joshua B. Scheinfeld, the principals of Fusion Capital, are deemed to be beneficial owners of all of the shares of common stock owned by Fusion Capital. Messrs. Martin and Scheinfeld have shared voting and disposition power over the shares being offered under this prospectus. As of the date hereof, 417,500 shares of our common stock have been previously acquired by Fusion Capital, consisting of 400,000 shares we issued to Fusion Capital as a commitment fee and 17,500 shares that were issued as an expense reimbursement. The Company may elect in its sole discretion to sell to Fusion Capital up to an additional 3,000,000 shares under the Purchase Agreement. Fusion Capital does not presently beneficially own those shares as determined in accordance with the rules of the SEC.

(3) Aspen Select Healthcare, LP ("Aspen") has direct ownership of 6,238,279 shares and has certain warrants to purchase 3,050,000 shares, all of which are currently exercisable. Aspen's beneficial ownership also includes 2,526,941 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.

(4) Mary S. Dent is the spouse of Dr. Michael T. Dent, our chairman and founder. Mrs. Dent has direct ownership of 1,202,471 shares which she received in a spousal transfer from Dr. Dent in February 2007. Mrs. Dent's beneficial ownership also includes (i) 900,000 shares held in a trust for the benefit of Dr. Dent's children (of which Dr. Dent

and his attorney are the sole trustees), (ii) warrants exercisable by Dr. Dent within 60 days of December 31, 2008 to purchase 139,659 shares and (iii) options exercisable by Dr. Dent within 60 days of December 31, 2008 to purchase 400,000 shares.

- (5) Steven C. Jones is the Acting Principal Financial Officer of the Company and a member of the Company's Board of Directors. Mr. Jones and his spouse have direct ownership of 724,826 shares. Mr. Jones also has warrants exercisable within 60 days of December 31, 2008 to purchase an additional 93,965 shares. Mr. Jones' beneficial ownership also includes (i) 107,143 shares owned by Jones Network, LP, a family limited partnership that Mr. Jones controls, (ii) 250,000 warrants exercisable within 60 days of December 31, 2008 owned by Aspen Capital Advisors, LLC, a company that Mr. Jones controls, (iii) 32,475 warrants exercisable within 60 days of December 31, 2008 owned by Gulf Pointe Capital, LLC, a company that Mr. Jones and Mr. Peterson control and (iv) 31,757 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 included in his beneficial ownership totals (see Note 3). The shares to be sold in this offering were received in a distribution from Aspen.
- (6) Jones Network, LP is a family limited partnership controlled by Steven C. Jones. The shares to be sold in this offering were received in a distribution from Aspen.
- (7) Marvin Jaffe is a member of the Company's Board of Directors and has direct ownership of 21,429 shares and warrants exercisable within 60 days of December 31, 2008 to purchase 41,667 shares. The shares to be sold in this offering were received in a distribution from Aspen.
- (8) The shares being sold in this offering were received in a distribution from Aspen.
- (9) Peter M. Peterson is a member of the Company's board of directors and has direct ownership of 12,500 shares and warrants exercisable within 60 days of December 31, 2008 to purchase an additional 66,667 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 beneficial ownership totals (see Note 3). Mr. Peterson's beneficial ownership also includes 32,475 warrants exercisable within 60 days of December 31, 2008 owned by Gulf Pointe Capital, LLC, a company that Mr. Jones and Mr. Peterson control. The shares to be sold in this offering were received in a distribution from Aspen.
- (10) The total number of shares listed does not double count the shares that may be beneficially attributable to more than one person.

## THE FUSION TRANSACTION

### General

On November 5, 2008, the Company and Fusion Capital Fund II, LLC, an Illinois limited liability company (“Fusion Capital”), entered into a Common Stock Purchase Agreement (the “Purchase Agreement”), and a Registration Rights Agreement (the “Registration Rights Agreement”). Under the Purchase Agreement, Fusion Capital is obligated, under certain conditions, to purchase shares from us in an aggregate amount of \$8.0 million from time to time over a thirty (30) month period. Under the terms of the Purchase Agreement, Fusion Capital has received a commitment fee consisting of 400,000 shares of our common stock. As of December 31, 2008, there were 32,117,237 shares outstanding (20,018,178 shares held by non-affiliates) excluding the 3,000,000 shares offered by Fusion Capital pursuant to this prospectus which it has not yet purchased from us. If all of such 3,000,000 shares offered hereby were issued and outstanding as of the date hereof, the 3,000,000 shares would represent 8.5% of the total common stock outstanding or 13.0% of the non-affiliates shares outstanding as of the date hereof.

Under the Purchase Agreement and the Registration Rights Agreement we are required to register and have included in the offering pursuant to this prospectus (1) 400,000 shares which have already been issued as a commitment fee, (2) 17,500 shares which we have issued to Fusion Capital as an expense reimbursement and (3) at least 3,000,000 shares which we may sell to Fusion Capital in the future. All 3,417,500 shares, 10.6% of our outstanding on November 5, 2008, the date of the Purchase Agreement, are being offered pursuant to this prospectus. Under the Purchase Agreement, we have the right but not the obligation to sell more than the 3,000,000 shares to Fusion Capital. As of the date hereof, we do not currently have any plans or intent to sell to Fusion Capital any shares beyond the 3,000,000 shares offered hereby. However, if we elect to sell more than the 3,000,000 shares (which we have the right but not the obligation to do), we must first register such additional shares under the Securities Act before we can elect to sell such additional shares to Fusion Capital. In the event we elect to do so, this could cause substantial dilution to our shareholders. The number of shares ultimately offered for sale by Fusion Capital is dependent upon the number of shares purchased by Fusion Capital under the Purchase Agreement.

We do not have the right to commence any sales of our shares to Fusion Capital until the SEC has declared effective the registration statement of which this prospectus is a part. The registration statement was declared effective on February 5, 2009 and the conditions to commence funding were satisfied. Generally, we have the right but not the obligation from time to time to sell our shares to Fusion Capital in amounts between \$50,000 and \$1.0 million depending on certain conditions. We have the right to control the timing and amount of any sales of our shares to Fusion Capital. The purchase price of the shares will be determined based upon the market price of our shares without any fixed discount at the time of each sale. Fusion Capital shall not have the right nor 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. There are no negative covenants, restrictions on future fundings, penalties or liquidated damages in the Purchase Agreement or the Registration Rights Agreement. The Purchase Agreement may be terminated by us at any time at our discretion without any cost to us. The Purchase Agreement provides that neither party has the ability to amend the Purchase Agreement and the obligations of both parties are non-transferable.

### Purchase Of Shares Under The Purchase Agreement

Under the Purchase Agreement, on any business day selected by us, we may direct Fusion Capital to purchase up to \$50,000 of our common stock. The purchase price per share is equal to the lesser of:

- the lowest sale price of our common stock on the purchase date; or
- the average of the three lowest closing sale prices of our common stock during the twelve consecutive business days prior to the date of a purchase by Fusion Capital.

The purchase price will be equitably adjusted for any reorganization, recapitalization, non-cash dividend, stock split, or other similar transaction occurring during the business days used to compute the purchase price. We may direct Fusion Capital to make multiple purchases from time to time in our sole discretion; no sooner than every four business days.

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### Our Right To Increase the Amount to be Purchased

In addition to purchases of up to \$50,000 from time to time, we may also from time to time elect on any single business day selected by us to require Fusion Capital to purchase our shares in an amount up to \$100,000 provided that our share price is not below \$0.75 during the three business days prior to and on the purchase date. We may increase this amount to up to \$250,000 if our share price is not below \$1.20 during the three business days prior to and on the purchase date. This amount may also be increased to up to \$500,000 if our share price is not below \$2.40 during the three business days prior to and on the purchase date. This amount may also be increased to up to \$1.0 million if our share price is not below \$5.00 during the three business days prior to and on the purchase date. We may direct Fusion Capital to make multiple large purchases from time to time in our sole discretion; however, at least two business days must have passed since the most recent large purchase was completed. The price at which our common stock would be purchased in this type of larger purchases will be the lesser of (i) the lowest sale price of our common stock on the purchase date and (ii) the lowest purchase price (as described above) during the previous seven business days prior to the purchase date.

### Minimum Purchase Price

Under the Purchase Agreement, we have set a minimum purchase price (“floor price”) of \$0.45. However, Fusion Capital shall not have the right nor the obligation to purchase any shares of our common stock in the event that the purchase price would be less the floor price. Specifically, Fusion Capital shall not have the right or the obligation to purchase shares of our common stock on any business day that the market price of our common stock is below \$0.45.

### Events of Default

Generally, Fusion Capital may terminate the Purchase Agreement without any liability or payment to the Company upon the occurrence of any of the following events of default:

• the effectiveness of the registration statement of which this prospectus is a part lapses for any reason (including, without limitation, the issuance of a stop order) or is unavailable to Fusion Capital for sale of our common stock offered hereby and such lapse or unavailability continues for a period of 20 consecutive business days or for more than an aggregate of 60 business days in any 365-day period;

• suspension by our principal market of our common stock from trading for a period of three consecutive business days;

• the de-listing of our common stock from our principal market provided our common stock is not immediately thereafter trading on the American Stock Exchange, the Nasdaq Global Market, the Nasdaq Capital Market, the Nasdaq Global Select Market or the New York Stock Exchange;

• the transfer agent’s failure for five business days to issue to Fusion Capital shares of our common stock which Fusion Capital is entitled to under the Purchase Agreement;

• any material breach of the representations or warranties or covenants contained in the Purchase Agreement or any related agreements which has or which could have a material adverse effect on us subject to a cure period of five business days; or

- any participation or threatened participation in insolvency or bankruptcy proceedings by or against us; or
- a material adverse change in our business;



## Our Termination Rights

We have the unconditional right at any time for any reason to give notice to Fusion Capital terminating the Purchase Agreement without any cost to us.

## No Short-Selling or Hedging by Fusion Capital

Fusion Capital has agreed that neither it nor any of its affiliates shall engage in any direct or indirect short-selling or hedging of our common stock during any time prior to the termination of the Purchase Agreement.

## Effect of Performance of the Purchase Agreement on Our Stockholders

All 3,417,500 shares registered in this offering are expected to be freely tradable. It is anticipated that shares registered in this offering will be sold over a period of up to 30 months from the date of this prospectus. The sale by Fusion Capital of a significant amount of shares registered in this offering at any given time could cause the market price of our common stock to decline and to be highly volatile. Fusion Capital may ultimately purchase all, some or none of the 3,000,000 shares of common stock not yet issued but registered in this offering. After it has acquired such shares, it may sell all, some or none of such shares. Therefore, sales to Fusion Capital by us under the Purchase Agreement may result in substantial dilution to the interests of other holders of our common stock. However, we have the right to control the timing and amount of any sales of our shares to Fusion Capital and the Purchase Agreement may be terminated by us at any time at our discretion without any cost to us.

In connection with entering into the Purchase Agreement, we authorized the sale to Fusion Capital of up to 3,000,000 shares of our common stock or 9.3% of our outstanding common stock on November 5, 2008 (the date of the Purchase Agreement). We estimate that we will sell no more than 3,000,000 shares to Fusion Capital under the Purchase Agreement all of which are included in this offering. We have the right to terminate the Purchase Agreement without any payment or liability to Fusion Capital at any time, including in the event that all 3,000,000 shares are sold to Fusion Capital under the Purchase Agreement. Subject to approval by our board of directors, we have the right but not the obligation to sell more than 3,000,000 shares to Fusion Capital. In the event we elect to sell more than the 3,000,000 shares offered hereby, we will be required to file a new registration statement and have it declared effective by the U.S. Securities and Exchange Commission. The number of shares ultimately offered for sale by Fusion Capital under this prospectus is dependent upon the number of shares purchased by Fusion Capital under the Purchase Agreement. The following table sets forth the amount of proceeds we would receive from Fusion Capital from the sale of shares at varying purchase prices:

Assumed Average Purchase Price	Number of Shares to be Sold if Full Purchase	Percentage of Outstanding Shares After Giving Effect to the Issuance to Fusion Capital(1)	Proceeds from the Sale of Shares to Fusion Capital Under the Purchase Agreement
\$0.45	3,000,000	8.5%	\$1,350,000
\$0.69(2)	3,000,000	8.5%	\$2,070,000
\$1.00	3,000,000	8.5%	\$3,000,000
\$1.50	3,000,000	8.5%	\$4,500,000
\$2.00	3,000,000	8.5%	\$6,000,000
\$2.50	3,000,000	8.5%	\$7,500,000
\$2.67	3,000,000	8.5%	\$8,000,000

(1) The denominator is based on 32,117,237 shares outstanding as of December 31, 2008, which includes the 417,500 shares previously issued to Fusion Capital. The numerator is based on the number of shares issuable under the

Purchase Agreement at the corresponding assumed purchase price set forth in the adjacent column.

(2) Closing sale price of our shares on January 21, 2009.

USE OF PROCEEDS

This prospectus relates to shares of our common stock that may be offered and sold from time to time by the selling stockholders. We will receive no proceeds from the sale of shares of common stock in this offering. However, we may receive up to \$8.0 million in proceeds from the sale of our common stock to Fusion Capital under the Purchase Agreement. Any proceeds from Fusion Capital we receive under the Purchase Agreement will be used for working capital and general corporate purposes.

## PLAN OF DISTRIBUTION

The common stock offered by this prospectus is being offered by the selling stockholders. The common stock may be sold or distributed from time to time by the selling stockholders directly to one or more purchasers or through brokers, dealers, or underwriters who may act solely as agents at market prices prevailing at the time of sale, at prices related to the prevailing market prices, at negotiated prices, or at fixed prices, which may be changed. The sale of the common stock offered by this prospectus may be effected in one or more of the following methods:

- ordinary brokers' transactions;
- transactions involving cross or block trades;
- through brokers, dealers, or underwriters who may act solely as agents
- "at the market" into an existing market for the common stock;
- in other ways not involving market makers or established business markets, including direct sales to purchasers or sales effected through agents;
- in privately negotiated transactions; or
- any combination of the foregoing.

In order to comply with the securities laws of certain states, if applicable, the shares may be sold only through registered or licensed brokers or dealers. In addition, in certain states, the shares may not be sold unless they have been registered or qualified for sale in the state or an exemption from the registration or qualification requirement is available and complied with.

Brokers, dealers, underwriters, or agents participating in the distribution of the shares as agents may receive compensation in the form of commissions, discounts, or concessions from the selling stockholders and/or purchasers of the common stock for whom the broker-dealers may act as agent. The compensation paid to a particular broker-dealer may be less than or in excess of customary commissions.

One of the selling stockholders, Fusion Capital, is an "underwriter" within the meaning of the Securities Act.

Neither we nor the selling stockholders can presently estimate the amount of compensation that any agent will receive. We know of no existing arrangements between the selling stockholders, any other stockholder, broker, dealer, underwriter, or agent relating to the sale or distribution of the shares offered by this prospectus. At the time a particular offer of shares is made, a prospectus supplement, if required, will be distributed that will set forth the names of any agents, underwriters, or dealers and any compensation from the selling stockholders, and any other required information.

We will pay all expenses incident to the registration, offering, and sale of the shares to the public other than commissions or discounts of underwriters, broker-dealers, or agents. We have also agreed to indemnify certain selling stockholders, including Fusion Capital, and related persons against specified liabilities, including liabilities under the Securities Act.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to our directors, officers, and controlling persons, we have been advised that in the opinion of the SEC this indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable.

Fusion Capital and its affiliates have agreed not to engage in any direct or indirect short selling or hedging of our common stock during the term of the Purchase Agreement.

We have advised the selling stockholders that while they are engaged in a distribution of the shares included in this prospectus they are required to comply with Regulation M promulgated under the Securities Exchange Act of 1934, as

amended. With certain exceptions, Regulation M precludes the selling stockholders, any affiliated purchasers, and any broker-dealer or other person who participates in the distribution from bidding for or purchasing, or attempting to induce any person to bid for or purchase any security which is the subject of the distribution until the entire distribution is complete. Regulation M also prohibits any bids or purchases made in order to stabilize the price of a security in connection with the distribution of that security. All of the foregoing may affect the marketability of the shares offered by this prospectus.

This offering will terminate on the date that all shares offered by this prospectus have been sold by the selling stockholders.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF  
OPERATIONS

Introduction

The following discussion and analysis should be read in conjunction with the Consolidated Financial Statements, and the Notes thereto included herein. The information contained below includes statements of the Company's or management's beliefs, expectations, hopes, goals and plans that, if not historical, are forward-looking statements subject to certain risks and uncertainties that could cause actual results to differ materially from those anticipated in the forward-looking statements. See "Forward-Looking Statements." Our actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those discussed below and elsewhere in this prospectus, particularly under the heading