UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-K

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

For the fiscal year ended December 31, 2020

or

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _____ to _____

Commission File Number: 001-35756

NEOGENOMICS, INC.
(Exact name of registrant as specified in its charter)

Nevada	**74-2897368**
(State or other jurisdiction of incorporation or organization)	**(IRS Employer Identification No.)**

12701 Commonwealth Drive, Suite 9, Fort Myers, FL 33913
(Address of principal executive offices, Zip code)

(239) 768-0600
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:	Trading Symbol(s):	Name of each exchange on which registered:
Common Stock, par value $0.001 per share	NEO	The Nasdaq Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act: Common Stock par value $0.001 per share

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☒	Accelerated filer	☐
Non-accelerated filer	☐	Smaller Reporting Company	☐
		Emerging Growth Company	☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. Yes ☒ No ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act): ☐ Yes ☒ No

As of June 30, 2020, the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was $2.8 billion, based on the closing price of the registrant's common stock of $30.98 per share on June 30, 2020.

The number of shares outstanding of the registrant's Common Stock, par value $0.001 per share, as of February 22, 2021: 116,939,763.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Proxy Statement for its 2021 Annual Meeting of Stockholders are incorporated by reference into Part III of this Annual Report on Form 10-K.

NEOGENOMICS, INC.
FORM 10-K ANNUAL REPORT
For the Fiscal Year Ended December 31, 2020

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PART I

FORWARD-LOOKING STATEMENTS

The information in this Annual Report on Form 10-K contains "forward-looking statements" and information within the meaning of Section 27A of the Securities Act of 1933, as amended, or the "Securities Act", and Section 21E of the Securities Exchange Act of 1934, as amended, or the "Exchange Act", which are subject to the "safe harbor" created by those sections. These forward-looking statements include, but are not limited to, statements concerning our strategy, future operations, future financial position, future revenues, changing reimbursement levels from government payers and private insurers, projected costs, prospects and plans and objectives of management. The words "anticipates," "believes," "estimates," "expects," "intends," "may," "plans," "projects," "will," "would" and similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain these identifying words. We may not actually achieve the plans, intentions or expectations disclosed in our forward-looking statements and you should not place undue reliance on our forward-looking statements. These forward-looking statements involve known and unknown risks and uncertainties that could cause our actual results, performance or achievements to differ materially from those expressed or implied by the forward-looking statements, including, without limitation, the risks set forth in Part I, Item 1A, "Risk Factors" in this Annual Report on Form 10-K and in our other filings with the Securities and Exchange Commission, or "SEC".

Forward-looking statements include, but are not limited to, statements about:

- Our ability to respond to rapid scientific change;
- The risk of liability in conducting clinical trials and the sufficiency of our insurance to cover such claims;
- Our ability to implement our business strategy;
- The anticipated impact to our business operations, customer demand and supply chain due to the recent global pandemic of a novel strain of the coronavirus ("COVID-19");
- The expected reimbursement levels from governmental payers and private insurers and proposed changes to those levels;
- The application, to our business and the services we provide, of existing laws, rules and regulations, including without limitation, Medicare laws, anti-kickback laws, Health Insurance Portability and Accountability Act of 1996 regulations, state medical privacy laws, international privacy laws, federal and state false claims laws and corporate practice of medicine laws;
- Regulatory developments in the United States including downward pressure on health care reimbursement;
- Our ability to maintain our license under the Clinical Laboratory Improvement Amendments of 1988 ("CLIA");
- Food and Drug Administration, or FDA regulation of Laboratory Developed Tests ("LDTs");
- Failure to timely or accurately bill for our services;
- Our ability to expand our operations and increase our market share;
- Our ability to expand our service offerings by adding new testing capabilities;
- Our ability to meet our future capital requirements;
- Our ability to manage our indebtedness;
- Our ability to manage the quality of our investment portfolio;
- Our expectations regarding the conversion of our outstanding 1.25% Convertible Senior Notes due May 2025 (the "2025 Convertible Notes") or our outstanding 0.25% Convertible Senior Notes due January 2028 (the "2028 Convertible Notes") in the aggregate principal amount of $201.3 million and $345 million, respectively, and our ability to make debt service payments under the 2025 Convertible Notes or 2028 Convertible Notes that may be issued in the convertible notes offering if such notes are not converted;
- Our ability to protect our intellectual property from infringement;
- Our ability to integrate future acquisitions and costs related to such acquisitions;
- The effects of seasonality on our business;
- Our ability to maintain service levels and compete with other diagnostic laboratories;
- Our ability to hire and retain sufficient managerial, sales, clinical and other personnel to meet our needs;
- Our ability to successfully scale our business, including expanding our facilities, our backup systems and infrastructure;

- Our handling, storage and disposal of biological and hazardous materials;

- The accuracy of our estimates regarding reimbursement, expenses, future revenues and capital requirements;
- Our ability to manage expenses and risks associated with international operations, including anti-corruption and trade sanction laws and other regulations, and economic, political, legal and other operational risks associated with foreign jurisdictions;
- Our ability to have sufficient cash to pay our obligations under the 2025 Convertible Notes or the 2028 Convertible Notes;
- The dilutive impact of the conversion of the 2025 Convertible Notes or the 2028 Convertible Notes; and
- Our ability to manage expenses and risks associated with international operations, including anti-corruption and trade sanction laws and other regulations, and economic, political, legal and other operational risks associated with foreign jurisdictions.

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

Trademarks

The “NeoGenomics”,“Genoptix” and “Clarient” names and logos have been trademarked with the United States Patent and Trademark Office. We have trademarked or have applications pending for the brand names CHART, COMPASS, FLEXREPORT, HEMEFISH, MULTIOMYX, NEOACTT, NEOARRAY, NEOCOMPLETE, NEOFISH, NeoLab, NEOGENOMICS LABORATORIES, NeoLink, NeoLIQUID, NEONET, NEOPATH, NEOREACH, NeoSCORE, NEOSEQ, NeoSITE, NEOSMART, NeoTYPE, NeoUniversity, NEOVUE, and PATHSITE. We also have trademarked or have pending trademarks for the marketing slogans “TAKING CANCER PERSONALLY”, “UNIVERSAL FUSION EXPRESSION”, “Unifying Cancer Care”, “UNIFYING, “NEOGENOMICS EUROPE”, and “WHERE PASSION MEETS PURPOSE”. Any other trademarks, registered marks and trade names appearing in this annual report on Form 10-K are the property of their respective holders.

ITEM 1. BUSINESS

NeoGenomics, Inc., a Nevada corporation (referred to individually as the "Parent Company" or collectively with its subsidiaries as "NeoGenomics", "we", "us", "our" or the "Company" in this Annual Report) is the registrant for SEC reporting purposes. Our common stock is listed on the NASDAQ Capital Market under the symbol "NEO".

COVID-19 Pandemic

In December 2019, a novel strain of coronavirus ("COVID-19") was identified and the disease has since spread across the world, including the United States. In March 2020, the World Health Organization declared the outbreak of COVID-19 a pandemic. The outbreak of the pandemic is materially adversely affecting the Company's employees, patients, communities and business operations, as well as the United States ("U.S.") economy and financial markets. The full extent to which the COVID-19 outbreak will impact the Company's business, results of operations, financial condition and cash flows will depend on future developments that are highly uncertain and cannot be accurately predicted, including new information that may emerge concerning COVID-19 and the actions to contain it or treat its impact and the economic impact on local, regional, national and international markets. As the COVID-19 pandemic continues, the Company's results of operations, financial condition and cash flows are likely to continue to be materially adversely affected, particularly if the pandemic persists for a significant amount of time.

The impact from the COVID-19 pandemic and the related disruptions have had a material adverse impact on our results of operations, volume growth rates and test volumes in 2020. Demand may fluctuate depending on the duration and severity of the COVID-19 pandemic, the length of time it takes for normal economic and operating conditions to resume, additional governmental actions that may be taken and/or extensions of time for restrictions that have been imposed to date, and numerous other uncertainties. Such events may result in business disruption, reduced revenues and number of tests, any of which could materially affect our business, financial condition, and results of operations.

We have taken significant actions to protect our employees and maintain a safe environment while ensuring continuity of critical oncology testing for cancer patients. Among other actions, we have de-densified our laboratories and facilities, adjusted laboratory shifts, restricted visitors to facilities, restricted employee travel, implemented an Emergency Paid Time Off policy, provided remote work-environment training and support, and managed our supply chains. Importantly, all main laboratory facilities have remained open and there has been an uninterrupted continuity of high-quality testing services for clients. The Company's top priority remains the health and safety of employees and continued quality and service for all clients with a focus on patient care. We believe that we are positioned to recover from the effects of the COVID-19 pandemic. The addition of COVID-19 polymerase chain reaction ("PCR") testing capabilities and our broad test menu enables our sales teams to identify opportunities for increasing revenues.

For additional information on risk factors related to the pandemic or other risks that could impact our results, please refer to "Risk Factors" in Part I, Item 1A of this Form 10-K.

Overview

We operate a network of cancer-focused testing laboratories in the United States, Europe and Asia. Our mission is to improve patient care through exceptional cancer-focused testing services. Our vision is to become the world's leading cancer testing and information company by delivering uncompromising quality, exceptional service and innovative solutions.

As of December 31, 2020, the Company has laboratory locations in Fort Myers and Tampa, Florida; Aliso Viejo, Carlsbad, and San Diego, California; Houston, Texas; Atlanta, Georgia; Nashville, Tennessee; Rolle, Switzerland; and Singapore. We currently offer the following types of testing services:

a. Cytogenetics ("karyotype analysis") - the study of normal and abnormal chromosomes and their relationship to disease. Cytogenetics involves analyzing the chromosome structure to identify changes from patterns seen in normal chromosomes. Cytogenetic studies are often performed to provide diagnostic, prognostic and occasionally predictive information for patients with hematological malignancies.

b. Fluorescence In-Situ Hybridization ("FISH") - a molecular cytogenetic technique that focuses on detecting and localizing the presence or absence of specific DNA sequences and genes on chromosomes. The technique uses fluorescent probes that bind to only those parts of the chromosome with which they show a high degree of sequence similarity. Fluorescence microscopy is used to visualize the fluorescent probes bound to the chromosomes. FISH can be used to help identify numerous types of gene alterations, including amplifications, deletions, and translocations.

c. Flow cytometry - a technique utilized to measure the characteristics of cell populations. Typically performed on liquid samples such as peripheral blood and bone marrow aspirate, it may also be performed on solid tissue samples such as lymph nodes following additional processing steps. Cells are labeled with selective

fluorescent antibodies and analyzed as they flow in a fluid stream through a beam of light. The properties measured in these antibodies include the relative size, relative granularity or internal complexity, and relative fluorescence intensity. These fluorescent antibodies bind to specific cellular antigens and are used to identify abnormal and/or malignant cell populations. Flow cytometry is typically utilized in diagnosing a wide variety of hematopoietic and lymphoid neoplasms. Flow cytometry is also used to monitor patients during the course of therapy to identify extremely low levels of residual malignant cells, known as minimal residual disease ("MRD") monitoring.

d. Immunohistochemistry ("IHC") and Digital Imaging – the process of localizing cellular proteins in tissue sections and relies on the principle of antigen-antibody binding. IHC is widely used in the diagnosis of abnormal cells such as those found in cancer. Specific surface membrane, cytoplasmic, or nuclear markers may be identified. IHC is also widely used to understand the distribution and localization of differentially expressed proteins. Digital imaging allows clients to visualize scanned slides, and also perform quantitative analysis for certain stains. Scanned slides are received online in real time and can be previewed often a full day before the glass slides can be shipped back to clients.

e. Molecular testing – a rapidly growing field which includes a broad range of laboratory techniques utilized in cancer testing. Most molecular techniques rely on the analysis of DNA and/or RNA, as well as the structure and function of genes at the molecular level. Molecular testing technologies include: liquid biopsy tests for advanced non-small cell lung cancer, all solid tumor types (pan-cancer), and certain breast cancer cases; DNA fragment length analysis; polymerase chain reaction ("PCR") analysis; reverse transcriptase polymerase chain reaction ("RT-PCR") analysis, real-time (or quantitative) polymerase chain reaction ("qPCR") analysis; bi-directional Sanger sequencing analysis; and next-generation sequencing ("NGS") analysis.

f. Morphologic analysis – the process of analyzing cells under the microscope by a pathologist, usually for the purpose of diagnosis. Morphologic analysis may be performed on a wide variety of samples, such as peripheral blood, bone marrow, lymph node, and from other sites such as lung, breast, etc. The services provided at NeoGenomics may include primary diagnosis, in which a sample is received for processing and our pathologists provide the initial diagnosis; or may include secondary consultations, in which slides and/or tissue blocks are received from an outside institution for second opinion. In the latter setting, the expert pathologists at NeoGenomics assist our client pathologists on their most difficult and complex cases.

Operating Segments

We have analyzed our reporting structure, the information available to our Chief Operating Decision Maker and the information being used to make strategic decisions and have identified two primary types of customers: Clinical and Pharma. Our Clinical customers include community-based pathology practices, oncology groups, hospitals and academic centers. Our Pharma customers include pharmaceutical companies to whom we provide testing and other services to support their research studies and clinical trials.

In 2020, our Clinical Services segment accounted for 86% of consolidated revenues and our Pharma Services segment accounted for 14% of consolidated revenues. See Note 20. Segment Information, to our Consolidated Financial Statements included in this Annual Report for further financial information about these segments.

Clinical Services Segment

The clinical cancer testing services we offer to community-based pathologists are designed to be a natural extension of, and complementary to, the services that they perform within their own practices. We believe our relationship as a non-competitive partner to community-based pathology practices, hospital pathology labs, reference labs, and academic centers empowers them to expand their breadth of testing and provide a menu of services that matches or exceeds the level of service found in any center of excellence around the world. Community-based pathology practices and hospital pathology labs may order certain testing services on a technical component only ("TC" or "tech-only") basis, which allows them to participate in the diagnostic process by performing the professional component ("PC") interpretation services without having to hire laboratory technologists or purchase the sophisticated equipment needed to perform the technical component of the tests. We also support our pathology clients with interpretation and consultative services using our own specialized team of pathologists for difficult or complex cases and provide overflow interpretation services when requested by clients.

NeoGenomics is a leading provider of Molecular and next-generation sequencing ("NGS") testing. These tests are interpreted by NeoGenomics' team of Molecular experts and are often ordered in conjunction with other testing modalities. NGS panels are one of our fastest growing testing areas and clients can often receive a significant amount of biomarker information from very limited samples. These comprehensive panels can allow for faster treatment decisions for patients as compared to a series of single-gene molecular tests being ordered sequentially. NeoGenomics has one of the broadest Molecular menus in the industry and our targeted NeoTYPE panels include genes relevant to a particular cancer type, as well as other complementary tests such

as immunohistochemistry and FISH. This comprehensive menu means that NeoGenomics can be a "one-stop shop" for our clients who can get all of their oncology testing needs satisfied by our laboratory. This is attractive to our clients as patient samples do not need to be split and then managed across several laboratories. NeoGenomics expects our Molecular laboratory and NGS capabilities to be a key growth driver in the coming years.

In addition, we directly serve oncology, dermatology and other clinician practices that prefer to have a direct relationship with a laboratory for cancer-related genetic testing services. We typically service these types of clients with a comprehensive service offering where we perform both the technical and professional components of the tests ordered. In certain instances, larger clinician practices have begun to internalize pathology interpretation services, and our tech-only service offering allows these larger clinician practices to also participate in the diagnostic process by performing the PC interpretation services on TC testing performed by NeoGenomics. In these instances, NeoGenomics will typically provide all of the more complex, molecular testing services.

Pharma Services Segment

Our Pharma Services revenue consists of three revenue streams:

- Clinical trials and research;
- Validation laboratory services; and
- Informatics

Our Pharma Services segment supports pharmaceutical firms in their drug development programs by supporting various clinical trials and research. This portion of our business often involves working with the pharmaceutical firms (sponsors) on study design as well as performing the required testing. Our medical team often advises the sponsor and works closely with them as specimens are received from the enrolled sites. We also work on developing tests that will be used as part of a companion diagnostic to determine patients' response to a particular drug. As studies unfold, our clinical trials team reports the data and often provides key analysis and insights back to the sponsors.

Our Pharma Services segment provides comprehensive testing services in support of our pharmaceutical clients' oncology programs from discovery to commercialization. In biomarker discovery, our aim is to help our customers discover the right content. We help our customers develop a biomarker hypothesis by recommending an optimal platform for molecular screening and backing our discovery tools with the informatics to capture meaningful data. In other pre-clinical and non-clinical work, we can use our platforms to characterize markers of interest. Moving from discovery to development, we help our customers refine their biomarker strategy and, if applicable, develop a companion diagnostic pathway using the optimal technology for large-scale clinical trial testing.

Whether serving as the single contract research organization or partnering with one, our Pharma Services team provides significant technical expertise, working closely with our customers to support each stage of clinical trial development. Each trial we support comes with rapid turnaround time, dedicated project management and quality assurance oversight. We have experience in supporting submissions to the Federal Drug Administration ("FDA") for companion diagnostics. Our Pharma Services strategy is focused on helping bring more effective oncology treatments to market through providing world-class laboratory services in oncology to key pharmaceutical companies in the industry.

We believe that NeoGenomics is uniquely positioned to service Pharma sponsors across the full continuum of the drug development process. Our Pharma Services team can work with them during the basic research and development phase as compounds come out of translational research departments as well as work with clients from Phase 1 clinical trials through Phases II and III as the sponsors work to prove the efficacy of their drugs. The laboratory biomarker tests that are developed during this process may become companion diagnostic, or CDx tests, that will be used on patients to determine if they could respond to a certain therapy. NeoGenomics is able to offer these CDx tests to the market immediately after FDA approval as part of our Day 1 readiness program. This ability helps to speed the commercialization of their drug and enables Pharma sponsors to reach patients through NeoGenomics broad distribution channel in the Clinical Services segment.

We are continuing to develop and broaden our informatics and data-related tools to leverage our unique market position and oncology expertise to help our stakeholders solve real-world problems such as identifying patients for clinical trials or providing clinical decision support tools for physicians and providers. We are committed to connecting patients with life altering therapies and trials. In carrying out these commitments, NeoGenomics aims to provide transparency and choice to patients regarding the handling and use of their data through our Notice of Privacy Practices, and has invested in leading technologies to ensure the data we maintain is secured at all times.

Markets

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

- Clinical Pathology testing;
- Anatomic Pathology testing; and

- Genetic and Molecular testing

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

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

Genetic and Molecular testing typically involves analyzing chromosomes, genes, proteins and/or DNA/RNA sequences for abnormalities. Genetic and molecular testing requires highly specialized equipment and credentialed individuals (typically M.D. or Ph.D. level) to certify results and typically yields the highest reimbursement levels of the three market segments.

NeoGenomics operates primarily in the Genetic and Molecular testing market. We also act as a reference laboratory supplying anatomic pathology testing. NeoGenomics typically does not operate in the clinical pathology testing market.

The field of cancer genetics is evolving rapidly and new tests continue to be developed at an accelerated pace. Based on medical and scientific discoveries over the last decade, cancer testing falls into one of three categories: diagnostic testing, prognostic testing and predictive testing. Of the three, the fastest growing area is predictive testing, which is utilized by clinicians to predict a patient's response to the various treatment options in order to deliver "personalized or precision medicine" that is optimized to that patient's particular circumstances. Personalized or precision medicine better allows clinicians to know if a patient will or will not respond to certain cancer medications like Herceptin, Keytruda, PIQRAY and Opdivo. This saves the healthcare system money by ensuring that expensive cancer drugs are only given to those who will benefit from them. This type of testing improves patient care and potentially saves lives by identifying optimized therapies much more rapidly than what was possible in previous years.

The United States' market for genetic and molecular testing is divided among numerous laboratories. Many of these laboratories are attached to academic institutions and primarily provide clinical services to their affiliated university hospitals and associated physicians.

We believe several key factors are influencing the rapid growth in the market for cancer testing: (i) every year, more and more genes and genomic pathways are implicated in the development and/or clinical course of cancer; (ii) cancer is primarily a disease of the elderly - one in four senior citizens is likely to develop some form of cancer during the rest of their lifetime once they turn sixty, and now that the baby boomer generation has started to reach this age range, the incidence rates of cancer are rising; (iii) increasingly, new drugs are being targeted to certain cancer subtypes and pathways which require companion diagnostic testing; (iv) patient and payer awareness of the value of genetic and molecular testing; (v) decreases in the cost of performing genetic and molecular testing; (vi) increased coverage from third party payers and Medicare for such testing; and (vii) the health insurance coverage to uninsured Americans under the Patient Protection and Affordable Care Act as amended by the Health Care and Education Reconciliation Act, each enacted in March 2010. These factors have driven significant growth in the market for this type of testing. Additionally, there is an increased focus on developing tests for monitoring purposes, including minimal residual disease ("MRD") and recurrence detection in cancer survivors, which could also broaden the use of certain tests and influence the market for cancer testing.

2021 Focus Areas:

We are committed to sustainable growth while being an innovative leader in our industry. Our focus for 2021 includes initiatives to drive consistent and profitable growth while pursuing innovation and maintaining exceptional service levels. We expect these initiatives to allow the Company to continue on its path to become the world's leading cancer testing and information company.

Strengthen Our World-Class Culture

Fortifying our culture to closely align with the values of our Company is a key priority. We will invest in the development of our people by creating mentoring, coaching and training opportunities to enhance and capitalize on the talent within our Company. We believe these initiatives will foster a culture of accountability and empowerment and are imperative to providing a meaningful work experience for our employees.

We value the health of our employees and want them to perform at their best, personally and professionally. We actively promote the health and well-being of our employees and recognize that overall health goes beyond greater health benefits and preventative care and includes a variety of areas such as physical, emotional and financial health. We provide a variety of programs to promote the improvement of our employees' health in these and other areas.

Building a resilient, sustainable organization is central to the success of our Company. Our focus is on expanding our purpose to extend beyond the organization to include all stakeholders. This includes the communities we serve and our society as a

whole. We build our talent through coaching and mentoring programs to meet the demands of our critical work of the future and our leadership needs. We will partner within our communities to remove barriers and sponsor educational opportunities needed to meet our highly-skilled workforce demands.

Continue to Provide Uncompromising Quality and Exceptional Service

Maintaining the highest quality laboratory operations and service levels has enabled us to consistently grow our business. We are continuously looking for ways to improve quality and implement best practices to streamline processes. We are focused on increasing automation with solutions that will maintain quality while improving efficiency in operations.

We will continue to grow a culture of quality through our leadership, coaching and employee training initiatives. We aim to empower our employees to deliver high-quality results in their respective function. We will implement initiatives to measure and improve turnaround times while maintaining a culture of quality, which we expect will continue to meet or exceed our customers' expectations.

Pursue Innovation and Growth

Our plans for 2021 include initiatives to continue to drive sustainable growth and innovation. We will continue to pursue market share gains by providing high complexity, cancer-related laboratory testing services to hospitals, community-based pathology and oncology practices, academic centers, clinicians, and pharmaceutical companies. Additionally, we will focus on continued reimbursement effectiveness through improving coverage, streamlining processes and providing clients more efficient, automated ordering methods, which we believe will continue to fuel our growth and market share.

Our laboratory and informatics teams will continue focus on new assays and product offerings, including liquid biopsy, MRD and other high-quality tests. We expect this to enhance our strategic position while enabling us to maintain our high levels of client retention.

Our broad and innovative test menu of molecular, including NGS, immunohistochemistry, and other testing has helped make us a “one-stop shop” for many clients who value that all of their testing can be sent to one laboratory. We will continue to look for growth opportunities through mergers and/or acquisitions and are focused on strategic opportunities that would be complementary to our menu of services and would increase our earnings and cash flow in the short to medium time frame. We are also focused on investing in business development and informatics capabilities to partner with our key stakeholders, including patients, providers, payers and pharmaceutical companies to provide solutions to current or near-term problems that they face.

Competitive Strengths

In addition to the competitive strengths discussed below, the Company believes that its superior testing technologies and instrumentation, laboratory information system, client education programs and broad domestic and growing international presence also differentiates NeoGenomics from its competitors.

Turnaround Times

We strive to provide industry leading turnaround times for test results to our clients nationwide, both in the Clinical Services and Pharma Services segments. By providing information to our clients in a rapid manner, physicians can begin treating their patients as soon as possible. Our consistent timeliness of results by our Clinical Services segment is a competitive strength and a driver of additional testing requests by referring physicians. Rapid turnaround times allow for the performance of other adjunctive tests within an acceptable diagnosis window in order to augment or confirm results and more fully inform treatment options. Additionally, we believe that our rapid turnaround time on testing and our project milestones are a key differentiator in our Pharma Services segment.

Innovative Service Offerings

We believe we currently have the most extensive menu of tech-only FISH services in the country as well as extensive and advanced tech-only flow cytometry and IHC testing services. These types of testing services allow the professional interpretation component of a test to be performed and billed separately by our physician clients. Our tech-only services are designed to give pathologists the option to choose, on a case by case basis, whether they want to order just the technical information and images relating to a specific test so they can perform the professional interpretation, or order “global” services and receive a comprehensive test report which includes a NeoGenomics pathologist’s interpretation of the test results. Our clients appreciate the flexibility to access NeoGenomics’ medical staff for difficult or complex cases or when they are otherwise unavailable to perform professional interpretations.

We offer a comprehensive suite of technical and interpretation services, to meet the needs of those clients who are not credentialed and trained in interpreting genetic tests and who require pathology specialists to interpret their testing results. In our global service offerings, our lab performs the technical component of the tests and our M.D.s and Ph.Ds. provide the service of interpreting the results of those tests. Our professional staff is also available for post-test consultative services. Clients using

our global service offering rely on the expertise of our medical team to give them the answers they need in a timely manner to help inform their diagnoses and treatment decisions.

We believe we have one of the broadest Molecular and Next Generation Sequencing test menus in the world. Clients have the ability to order single gene molecular tests, targeted NeoTYPE panels that include the relevant actionable genes for a particular cancer type as well as large NGS panels. Our Pharma Services Division offers a full range of sequencing testing including whole exome and whole genome sequencing. Our menu enables us to be a true "one-stop shop" for our clients as we can meet all of their oncology testing needs.

National Direct Sales Force

Our direct sales force has been trained extensively in cancer genetic testing and consultative selling skills to service the needs of clients. Our sales team for the clinical cancer testing services is organized into five regions - Northeast, Southeast, North Central, South Central and West. Our Pharma Services segment has a dedicated team of business development specialists who are experienced in working with pharma sponsors and helping them with the testing needs of their research and development projects as well as Phase I, II and III studies. These sales representatives utilize our custom Customer Relationship Management System ("CRM") to manage their territories, and we have integrated all of the important customer care functionality within our Laboratory Information Services ("LIS") into the CRM so that our sales representatives can stay informed of emerging issues and opportunities within their regions. Our in-house customer care team is aligned with our field sales team to serve the needs of our clients by utilizing the same LIS and CRM. Our field teams can see in real-time when a client calls the laboratory, the reason for the call, the resolution, and if face-to-face interaction is needed for follow-up. Our sales force educates clients on new test offerings and their proper utilization and our representatives are often seen as trusted advisors by our clients.

Seasonality

The majority of our clinical testing volume is dependent on patients being treated by hematology/oncology professionals and other healthcare providers. The volume of our testing services generally declines modestly during the summer vacation season, year-end holiday periods and other major holidays, particularly when those holidays fall during the middle of the week. In addition, the volume of our testing tends to decline due to extreme adverse weather conditions, such as excessively hot or cold spells, heavy snow, hurricanes or tornadoes in certain regions, consequently reducing revenues and cash flows in any affected period.

In our Pharma Services segment, we enter into both short-term and long-term contracts, ranging from one month to several years. While the volume of this testing is not as directly affected by seasonality as described above, the testing volume does vary based on the terms of the contract. Our volumes are often based on how quickly sponsors can get patient enrollees for their trials and seasonality can impact how quickly they can get patients enrolled. Many of our long-term contracts contain specific performance obligations where the testing is performed on a specific schedule. This results in revenue that is not consistent among periods. In addition, this results in backlog that can be significant.

Competition

For our Clinical Services segment, the genetic and molecular testing niche of the laboratory testing industry is highly competitive and, given the opportunities in this industry, we expect it to become even more competitive. Competitive factors in genetic and molecular testing generally include the reputation of the laboratory, range of services offered, pricing, convenience of sample collection and pick-up, quality of analysis and reporting, medical staff, timeliness of delivery of completed reports (i.e. turnaround times) and post-reporting follow-up for clients.

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

We intend to continue our efforts to gain market share by offering industry-leading turnaround times, a broad service menu, high-quality test reports, new tests including proprietary ones, enhanced post-test consultation services, and the personal attention from our direct sales force. In addition, we believe our flexible reporting solutions, which enable clients to report out customized results in a secure, real-time environment, will allow us to continue to gain market share.

Our Pharma Services business competes against many other clinical research organizations and central reference laboratories. Many of these competitors are much larger and have a greater international presence than we do. Over the past few years, we have expanded our Pharma Services business into Europe and Asia at the request of our clients and believe that our state of the art testing menu and our high level of service along with our international expansion will allow us to continue to gain market share in this segment.

Our Pharma Services segment competitors are numerous Contract Resource Organizations ("CROs"). These competitors are larger than NeoGenomics and have global operations including operations in some regions where we do not yet have service capabilities. These laboratories may be more effective than us in gaining business for global clinical trials. Many clinical reference laboratories have also entered the space in support of clinical trials and the related laboratory testing. These reference laboratories are often willing to compete with lower pricing for smaller more limited studies. We believe our strong scientific and medical team is a key differentiator where NeoGenomics is used as an advisor to the sponsors on their trials. Our extensive experience in anatomic pathology continues to result in our winning clinical trials business as sponsors trust our medical team and want them to closely oversee their trials. We believe our service focus and our leading molecular and immunohistochemistry platforms, as well as our exclusive MultiOmyx™ platform will continue to lead to rapid growth in this segment.

Suppliers

The Company orders its laboratory and research supplies from large national laboratory supply companies. While we do not depend on a concentrated, limited number of suppliers, we do rely on certain suppliers for specific reagents or other equipment, including sequencers. While we do not believe a short-term disruption from any one of these suppliers would have a material effect on our business, it could result in short-term impact on our turnaround time or gross margin depending on the nature of or extent of the disruption.

Concentrations of Credit Risk

Concentrations of credit risk with respect to revenue and accounts receivable are primarily limited to certain clients to which the Company provides a significant volume of its services, and to specific payers of our services such as Medicare and individual insurance companies.

Dependence on Major Clients

We market our services to pathologists, oncologists, other clinicians, hospitals, pharmaceutical companies, academic centers and other clinical laboratories throughout the United States, Europe and Asia. The Company's client base consists of a large number of geographically dispersed clients diversified across various customer types. For the years ended December 31, 2020, 2019 and 2018, no single client accounted for more than 10% of revenue.

Payer Mix

The following table reflects our estimate of the breakdown of net clinical revenue by type of payer for the fiscal years ended December 31, 2020, 2019 and 2018:

	2020	2019	2018
Client direct billing	63 %	59 %	68 %
Commercial insurance	20 %	23 %	17 %
Medicare and other government	17 %	18 %	15 %
Total	100 %	100 %	100 %

The change in payer mix during the year ended December 31, 2020 is primarily due to client direct billing related to COVID-19 PCR testing revenue.

All of our Pharma Services revenue is billed directly to clients, or the pharmaceutical sponsor.

Insurance

We maintain professional liability and numerous other insurance policies. We believe that our present insurance is sufficient to cover currently estimated exposures, but we cannot assure that we will not incur liabilities in excess of the policy coverage limits. In addition, although we believe that we will be able to continue to obtain adequate insurance coverage, we cannot assure that we will be able to do so at acceptable cost.

Available Information

Our internet website address is www.neogenomics.com. Our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act are available free of charge through our website as soon as reasonably practicable after we electronically file with or furnish them to the SEC, and are available in print to any stockholder who requests a copy. Information on our website shall not be deemed incorporated into, or to be part of, this Annual Report on Form 10-K.

Additionally, the SEC maintains a website that contains reports, proxy statements, information statements and other information regarding issuers, including us, that file electronically with the SEC at www.sec.gov.

Human Capital Management

As of December 31, 2020, the Company had approximately 1,700 full-time equivalent employees and contracted pathologists.

World-class Medical and Scientific Team

Our team of medical professionals and Ph.Ds. are specialists in the field of genetics, oncology and pathology. As of December 31, 2020, we employed or contracted with over 120 M.D.s and Ph.Ds. We have many nationally and world-renowned pathologists on staff, which is a key differentiator from many smaller laboratories. Our clinical customers look to our staff and their expertise and they often call our medical team on challenging cases. For our Pharma Services segment, many sponsors work with our medical team on their study design and on the interpretation of results from the studies. Our medical team is a key differentiator as we have a depth of medical expertise that many other laboratories cannot offer to Pharmaceutical companies.

World-Class Culture

We promote a World-Class Culture through Employee Engagement, Training and Development, Wellness, Work-Life Balance, and Communication initiatives. Human capital management, including the recruitment and retention of a talented, diverse and highly motivated workforce, is an essential component of our strategy for long-term value creation. The Company's active approach to human capital management values and promotes diversity, development, and equal opportunity, among many other factors.

Our commitment to maintaining an excellent workplace includes investing in ongoing opportunities for employee development in a diverse and inclusive environment. In addition to gender and ethnic diversity and inclusion on our Board, diversity in gender and ethnicity is well-established within our workforce. As of December 31, 2020, women make up 60% of our global workforce and 57% of women are in supervisory or higher positions. With regard to the Company's top two management tiers, 40% of our executive team and our vice presidents are women and 33% of our Board of Directors are women. Ethnicity is also strongly represented: 53% of our workforce and 10% of our Board of Directors are ethnically diverse.

We believe that a diverse and inclusive workforce where diverse perspectives are recognized and respected positively impacts our performance and strengthens our culture. We continuingly strive to enhance a World-Class Culture by promoting a workplace in which people of diverse race, ethnicity, veteran status, marital status, socio-economic level, national origin, religious belief, physical ability, sexual orientation, age, class, political ideology, gender identity and expression participate in, contribute to, and benefit equally. We maintain a retention rate of 85% or higher year over year. As of December 31, 2020, the Company's retention rate was greater than 90%.

Government Regulation

The laboratory industry is subject to extensive governmental regulation domestically, at the federal and state levels, and internationally. The applicable laws and regulations change frequently and there can be no assurance that the Company will not be subject to audit, inquiry, or investigation with respect to some aspect of its operations. The failure to comply with applicable laws, regulations, and reimbursement guidelines could have a material adverse effect on the Company's business. Significant areas of regulation are summarized below.

Licensure, Accreditation, and Quality Standards

The Company operates laboratories in Florida, Georgia, Tennessee, Texas, California, Switzerland, and Singapore. The laboratories are licensed as required by the states or countries in which they are located. In addition, the laboratories in Fort Myers, Florida, Aliso Viejo and Carlsbad, California, and Nashville, Tennessee are licensed by the State of New York as they accept clinical specimens obtained in New York. All of our domestic laboratories are certified in accordance with the Clinical Laboratory Improvement Amendments of 1988 ("CLIA"). Under CLIA, the Centers for Medicare and Medicaid Services ("CMS") establishes various operational, personnel, facilities, administration, quality, and proficiency requirements for testing performed by the laboratory, intended to ensure testing services are accurate, valid, and timely. CLIA certification is also a prerequisite to be eligible to bill federal and state health care programs, as well as many private insurers, for laboratory testing services. The sanctions for failure to comply with CLIA requirements include suspension, revocation or limitation of a laboratory's CLIA certificate, which is necessary to conduct business; cancellation or suspension of the laboratory's approval to receive Medicare and/or Medicaid reimbursement; as well as significant fines and/or criminal penalties. The loss or suspension of a CLIA certification could have a material adverse effect on the Company.

Certain Company laboratories are also accredited by the College of American Pathologists ("CAP"), including our laboratories in Switzerland and Singapore, and actively participate in CAP's proficiency testing programs for all tests offered by the

Company. CAP's proficiency testing programs require participating laboratories to test specimens that they receive from an approved testing entity and return the results. The testing entity, conducting the program, analyzes the results and provides to the Company a quality control report assessing the results.

The Company has a Quality Management System that meets applicable regulatory and accreditation requirements and industry standards. The quality of care provided to clients and their patients is of paramount importance to us. We maintain quality control processes, including standard operating procedures, controls, performance measurement and reporting mechanisms. Our employees are committed to providing accurate, reliable and consistent services at all times. Any concerns regarding the quality of testing or services provided by the Company are immediately communicated to our Company management. We also continually revise and improve our tests and work with laboratory equipment vendors to ensure that our laboratory has the highest possible quality.

Compliance with licensure, accreditation and quality standards are verified through periodic inspections by agents of relevant regulatory agencies and accrediting organizations, and we believe we are in material compliance of all licensure, accreditation and quality requirements.

Compliance and Ethics Program

The health care industry is highly regulated and scrutinized with respect to fraud, abusive billing practices and improper financial relationships between health care companies and their referral sources. The U.S. Department of Justice ("DOJ") and the Office of the Inspector General of HHS ("OIG") has published compliance program guidance, including the Compliance Program Guidance for Clinical Laboratories in August of 1998, fraud alerts and advisory opinions. The Company has implemented a robust Compliance & Ethics Program encompassing this guidance, which is overseen by our Board of Directors, to ensure compliance with the myriad of international, federal and state laws, regulations and governmental guidance applicable to our business. Our program employs a risk-based approach to the development and implementation of standards of conduct, training/education of employees, monitoring and auditing Company practices, investigation, and response to reported or detected compliance issues. The Company provides a hotline for employees who wish to anonymously or confidentially report suspected violations of our codes of conduct, policies/procedures, or laws and regulations. Employees are strongly encouraged to report any suspected violation if they do not feel the problem can be appropriately addressed through the normal chain of command. The hotline does not replace other resources available to our employees, including supervisors, managers and human resources staff, but is an alternative channel available 24 hours a day, 365 days a year. The hotline forwards all reports to the Chief Compliance Officer who is responsible for investigating, reporting to the Compliance Committee, and documenting the disposition of each report. The hotline forwards any calls pertaining to the financial statements or financial issues to the Chairman of the Audit Committee. The Company does not allow any retaliation against an employee who reports a compliance related issue in good faith.

The Board of Directors has a Compliance Committee of the Board, which meets regularly to discuss all compliance-related issues that may affect the Company. The Company reviews its policies and procedures as new regulations and interpretations come to light to comply with applicable regulations. The Chief Compliance Officer reports quarterly to the Compliance Committee on the effectiveness of the program.

Laboratory Developed Tests ("LDTs")

The FDA has regulatory responsibility over, among other areas, instruments, test kits, reagents and other medical devices used by clinical laboratories to perform diagnostic testing. High complexity and CLIA-certified laboratories, such as ours, frequently develop internal testing procedures to provide diagnostic results to customers. These tests are referred to as laboratory developed tests ("LDTs"). LDTs are subject to CMS oversight through its enforcement of CLIA. The FDA has also claimed regulatory authority over all LDTs, but indicates that it has exercised enforcement discretion with regard to most LDTs offered by high complexity CLIA-certified laboratories, and has not subjected these tests to FDA rules and regulations governing medical devices. However, the FDA has stated that it has been considering changes in the way it believes that laboratories ought to be allowed to offer these LDTs, and since 2010 publicly announced that it would be exercising regulatory authority over LDTs, using a risk-based approach that will direct more resources to tests with the highest risk of injury. On July 31, 2014 the FDA issued a notification to Congress of the "Anticipated Details of the Draft Guidance for Industry, Food and Drug Administration Staff, and Clinical Laboratories: Framework for Regulatory Oversight of Laboratory Developed Tests," or the Draft LDT Guidance. As described in this notification, the FDA planned to provide draft guidance to clinical laboratories that develop their own LDTs regarding how the FDA intends to regulate such laboratories under the Federal Food, Drug, and Cosmetic Act. In October 2014, the FDA published Draft LDT Guidance setting forth its proposed framework and timetable for regulating LDTs. The FDA received numerous comments both in support of and opposed to the draft guidance. The FDA provided an opportunity for public comment through February 2015 and received numerous public comments in response to the Draft LDT Guidance. The FDA then announced that it would not be finalizing the draft guidance. On January 13, 2017, FDA published a non-binding Discussion Paper to "advance the public discussion by providing a possible approach to spur further dialogue." The Discussion Paper sets forth a possible LDT regulatory approach where LDTs currently on the market would be

exempt from FDA regulation except for adverse event and malfunction reporting, and regulation of new and modified LDTs would be phased in over four years, based on risk. Recently, Congress has submitted a legislative discussion draft, the Diagnostic Accuracy and Innovation Act ("DAIA") to the FDA and requested technical assistance on the draft. FDA's technical assistance consisted of recommendations for significant changes to the bill. In December 2018, Congress released an updated bill, the Verifying Accurate Leading-edge IVCT Development ("VALID") Act that is largely consistent with FDA's technical assistance on DAIA. However, it remains unknown whether Congress will enact legislation regulating LDTs and, if so, whether the legislation will be similar to the framework described in the Draft LDT Guidance, or in the VALID Act. It is possible that legislation and resulting FDA regulation may result in increased regulatory burdens for us to register and continue to offer our tests or to develop and introduce new tests, or modify existing tests and may increase our costs. We cannot be certain as to which of our tests would require FDA review and approval, and if approval was to be required, that our tests could obtain FDA approval.

Laws Governing Source Relationships

The federal laws governing Medicare, Medicaid and other federal health benefits, as well as other state and federal laws, regulate certain aspects of the relationships between health care providers, including clinical laboratories, and their referral sources, including physicians, hospitals, other laboratories and other entities. We are subject to the federal Anti-Kickback Statute ("AKS"), as well as similar state statutes and regulations, which prohibit the offer, payment, solicitation or receipt of any form of remuneration in return for referring, ordering, leasing, purchasing or arranging for or recommending the ordering, purchasing or leasing of items or services payable by Medicare, Medicaid or any other federally funded healthcare program. The federal AKS defines remuneration to include anything of value, in cash or in kind, and thus can implicate financial relationships including payments not commensurate with fair market value, such as in the form of personnel, supplies, professional or technical services or anything else of value. For additional information regarding the federal AKS and similar state anti-kickback laws, see Item 1A. Risk Factors, Risks Relating to Regulation, "The failure to comply with Anti-Kickback laws may subject us to liability, penalties or limitation of operations."

In addition to the federal AKS, in October 2018, the U.S. enacted the Eliminating Kickbacks in Recovery Act of 2018 ("EKRA"), as part of the Substance Use-Disorder Prevention that Promotes Opioid Recovery and Treatment for Patients and Communities Act ("SUPPORT Act"). EKRA is an all-payer anti-kickback law that makes it a criminal offense to pay any remuneration to induce referrals to, or in exchange for, patients using the services of a recovery home, a substance use clinical treatment facility, or laboratory. Although it appears that EKRA was intended to reach patient brokering and similar arrangements to induce patronage of substance use recovery and treatment, the language in EKRA is broadly written. As drafted, an EKRA prohibition on incentive compensation to sales employees, payments to group purchasing organizations ("GPOs"), or group practices is broader than the federal anti-kickback statute and regulations, which permits these types of compensation arrangements which are common in the industry when certain regulatory requirements are met. Significantly, EKRA permits the DOJ to issue regulations clarifying EKRA's exceptions or adding additional exceptions, but such regulations have not yet been issued. The Company is working through its trade association to address the scope of EKRA and is seeking clarification or correction.

We are also subject to international laws and regulations, including the U.S. Foreign Corrupt Practices Act ("FCPA") and the U.K. Bribery Act, relating to corrupt and illegal payments to, and contracting practices with regard to, government officials and others. The scope of the types of payments or other benefits covered by these laws is very broad and regulators are frequently using enforcement proceedings to define the scope of these laws. These laws include civil penalties for enterprises and criminal penalties and imprisonment for individuals. The obligation of the Company under these laws is to screen third parties who are hired to carry out certain services on behalf of the Company, to monitor for and report suspicious transactions, and to monitor direct and indirect payments to government officials and others. Because of the broad definitions of applicability of these laws, international clients or vendors working for government-owned entities are often considered to be governmental officials. The Company has implemented a program to comply with these laws and has educates employees and its relevant vendors regularly on the requirements for vendor onboarding and conducting appropriate business interactions globally.

Physician Self-Referral Laws

The federal law referred to as the "Stark Law", prohibits payments for certain health care services, referred to as designated health services ("DHS"), which were rendered as a result of referrals by physicians to DHS entities with which the physicians (or their immediate family members) have a financial relationship. A "financial relationship" includes both an ownership interest and/or a compensation arrangement with a physician, both direct and indirect, and DHS includes, but is not limited to, laboratory services.

The Stark Law prohibits an entity that receives a prohibited DHS referral from seeking payment from Medicare and Medicaid for any DHS services performed as a result of such a referral, unless an arrangement is carefully structured to satisfy every requirement of a regulatory exception. The Company endeavors to structure its financial relationships in compliance with the Stark Law and with similar state physician self-referral laws.

Further, many states have promulgated self-referral laws and regulations similar to the federal Stark Law, but these vary significantly based on the state. In addition to services reimbursed by Medicaid or government payers, often these state laws and regulations can encompass services reimbursed by private payers and paid by self-pay patients as well. Penalties for violating state self-referral laws and regulations vary based on the state, but often include civil and criminal penalties, exclusion from Medicaid, and loss of licenses. Our financial arrangements with physicians are governed by the federal Stark Law and similar state self-referral laws, and we rely on certain exceptions to the Stark Law with respect to such relationships. While we believe that our financial relationships with physicians and referral practices are in compliance with applicable laws and regulations, we cannot guarantee that government authorities would agree. If we are found by the government to be in violation of the Stark Law or a similar state self-referral law, we could be subject to significant penalties, including fines as specified above, exclusion from participation in government and private payer programs and requirements to refund amounts previously received from government.

The False Claims Act

The federal False Claims Act ("FCA") prohibits any person or entity from knowingly presenting, or causing to be presented, to the U.S. government, or to a Medicare program contractor, a false or fraudulent claim for payment, or knowingly making or using a false record or statement to have a false claim paid by the government, or conspiring to defraud the U.S. government, or knowingly making or using a false statement to conceal an obligation to pay the government, or improperly retaining overpayments from, the government. Following enactment of the Affordable Care Act ("ACA"), claims related to violations of the federal AKS and knowing retention of overpayments are also considered false claims and could lead to liability under the FCA. Further, FCA liability may lead to exclusion from participation in Medicare, Medicaid and other federal healthcare programs. The FCA's "whistleblower" or "qui tam" provisions are being used with more frequency to challenge the reimbursement practices of providers and suppliers. Those provisions allow a private individual to bring an action on behalf of the government alleging that the defendant has submitted false claims for payment to the federal government. The government must decide whether to intervene in the lawsuit and whether to prosecute the case. If it declines to do so, the individual may 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. The successful qui tam relator who brought the case is entitled to a portion of the proceeds and its attorneys' fees and costs. As most qui tam cases are filed by current or former employees, an effective compliance program, as defined by the DOJ and OIG, plays a crucial role in reducing the Company's exposure to liability. It is also a criminal offense, under Title 18 U.S. Code, Section 287, for a person or entity to make a claim against the United States or any department or agency, knowing the claim to be false, fictitious or fraudulent. The penalty is a fine, and imprisonment of up to five years. The federal FCA has been an effective enforcement tool for the federal government and many states have enacted similar false claims acts as well.

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

Medicare Payment Guidelines

We have various billing arrangements with our clients and with third party payers, including the Medicare program. When the Company bills the client for all, or a portion of, a laboratory test performed, these client billing arrangements are priced competitively at fair market value. These client billing arrangements may implicate the prohibition of the Medicare program against charging the Medicare or Medicaid programs fees substantially in excess of the Company's usual and customary charges. Given our participation in Medicare and Medicaid, we are subject to Medicare and Medicaid regulations related to billing those programs as well as agency sub-regulatory guidance regarding the same, the federal Stark Law, federal and state anti-kickback statutes, and the federal and state FCAs.

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

Environmental Health and Safety

The Company is subject to licensing and regulation under federal and state laws relating to the protection of the environment, and human health and safety laws and regulations relating to the handling, transportation and disposal of medical specimens and hazardous materials, infectious and hazardous waste. Company laboratories are subject to applicable laws and regulations relating to biohazard disposal of all laboratory specimens, and the Company generally utilizes outside vendors for disposal of such specimens. In addition, the Occupational Safety and Health Administration ("OSHA") has established extensive requirements relating to workplace safety for healthcare employers, including clinical laboratories, whose workers may be exposed to blood-borne pathogens such as HIV and hepatitis B and C viruses. These regulations, among other things, require

work practice controls, protective clothing and equipment, training, medical follow-up, vaccinations and other measures designed to minimize exposure to, and transmission of, blood-borne pathogens. For purposes of transportation, some biological materials and laboratory supplies are classified as hazardous materials and are subject to regulation by one or more of the following agencies: the U.S. Department of Transportation, the U.S. Public Health Service, the United States Postal Service, the Office of Foreign Assets Control, and the International Air Transport Association. Other countries where the Company conducts business have similar laws and regulations concerning the environment and human health and safety with which the Company must also comply. The Company seeks to comply with all relevant environmental and human health and safety laws and regulations. Failure to comply could subject the Company to various administrative and/or other enforcement actions

Confidentiality and Security of Personal Information

The Health Insurance Portability and Accountability Act of 1996 ("HIPAA"), contains provisions that protect individually identifiable health information from unauthorized use or disclosure by covered entities and their business associates. The Office for Civil Rights of HHS ("OCR"), the agency responsible for enforcing HIPAA, has published regulations to address the privacy (the "Privacy Rule") and security (the "Security Rule") of protected health information ("PHI"). The Company is a covered entity under HIPAA and has adopted policies and procedures to comply with the Privacy Rule and the Security Rule and HIPAA. The health care facilities and providers that refer specimens to the Company are also bound by HIPAA. HIPAA also requires that all providers who transmit claims for health care goods or services electronically utilize standard transaction and data sets and use standardized national provider identification codes. The Company has taken necessary steps to comply with HIPAA regulations, utilizes standard transaction data sets, and has obtained and implemented national provider identifiers, or NPIs, as the standard unique health identifier in filing and processing health care claims and other transactions.

The American Recovery and Reinvestment Act ("ARRA") enacted the HITECH Act which extends the scope of HIPAA to permit enforcement against business associates for a violation, establishes new requirements to notify the Office for Civil Rights of a breach of PHI, and allows the Attorneys General of the states to bring actions to enforce violations of HIPAA. Rules implementing various aspects of HIPAA are continuing to be promulgated. With respect to these rules, as of July 1, 2012, CMS required all HIPAA-covered entities such as the Company to conduct electronic claim submissions and related electronic transactions under a new HIPAA transaction standard called Version 5010.

In addition to the HIPAA Privacy Rule and Security Rule described above, the Company is subject to state laws regarding the handling and disclosure of patient records and patient health information. The HIPAA Privacy Rule and Security Rule regulations do not supersede state laws that may be more stringent; therefore, we are required to comply with both federal privacy and security regulations and varying state privacy and security laws and regulations. These laws vary widely. Penalties for violation include sanctions against a laboratory's licensure as well as civil or criminal penalties. Additionally, private individuals may have a right of action against the Company for a violation of a state's privacy laws. We believe we are in material compliance with current state laws regarding the confidentiality of health information and will continue to monitor and comply with new or changing state laws.

The California Consumer Privacy Act ("CCPA") took effect on January 1, 2020 and imposed privacy compliance obligations with regard to the personal information of California residents. This legislation creates significant new requirements for identifying, managing, securing, tracking, producing and deleting consumer personal information and takes the position that consumers "own" their personal information and provides specific rights, including the right to opt out of their data being sold to a third party by the Company. The CCPA defines personal information extremely broadly as "information that identifies, relates to, describes, is capable of being associated with, or could reasonably be linked, directly or indirectly, with a particular consumer or household." Like the international privacy laws, this creates greater complexity in implementing a compliance program to support these requirements. This law became enforceable by the California Attorney General on July 1, 2020 and the Company has implemented significant mechanisms to comply with this law.

Due to the Company's international expansion, we are subject to a variety of international laws which serve to protect the personally identifiable information ("PII") of individuals who reside in those countries. These laws include the European Union's General Data Protection Regulation ("GDPR"), The Swiss Federal Data Protection Act ("FADP"), and Singapore's Personal Data Protection Act ("PDPA"). These laws are much more complex and stringent in nature than HIPAA and are not limited to protecting patient data alone; they include employees, clients, and other individuals, for which we have collected their data. Like HIPAA, these laws contain regulatory requirements for both robust data privacy and security programs and require data breach reporting should PII be used or disclosed in a manner not allowed under the laws. Penalties for violations of these laws can be significant, for instance, GDPR's maximum penalties are up to 4% of a company's annual global turnover or €20 million – whichever is greater. Although the Company's business is conducted primarily in the United States, we do receive some clinical testing from countries outside of the U.S. and we do collect data of individuals internationally as part of the Company's Pharma business, which obligates us to comply with these laws. We have developed privacy and security programs to meet these international obligations and continue to reassess and improve these programs continually.

ITEM 1A. RISK FACTORS

We are subject to various risks that may materially harm our business, financial condition and results of operations. They are not, however, the only risks we face. Additional risks and uncertainties not presently known to us or that we currently believe not to be material may also adversely affect our business, financial condition or 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.

Risk Factors Summary

The following is a summary of the principal risks that could adversely affect our business, financial condition or results of operations.

Risks Relating to Our Business

- The COVID-19 pandemic is highly dynamic in the United States and throughout the world and may adversely affect our operations and financial condition.
- Our business is subject to rapid scientific change, which could have a material adverse effect on our business, results of operations and financial condition.
- Increased competition, including price competition, could have a material adverse impact on our net revenues and profitability.
- We face the risk of capacity constraints, which could have a material adverse effect on our business, results of operations and financial condition.
- Failure to develop, or acquire licenses for, new or improved testing technologies could materially and adversely affect our revenues.
- Clinical trials and research services create a risk of liability.
- Clinicians or patients using our services may sue us, and our insurance may not sufficiently cover all claims brought against us, which will increase our expenses.
- Our investments in marketable securities are subject to certain risks which could affect our overall financial condition, results of operations or cash flows.
- Servicing our 1.25% Convertible Senior Notes (the “2025 Convertible Notes”) and 0.25% Convertible Senior Notes due May 2028 (the “2028 Convertible Notes” and, together with the 2025 Convertible Notes, the “Convertible Notes”) will require a significant amount of cash. We may not have sufficient cash flow from our business to pay our obligations under the notes, which could adversely affect our financial condition and operating results.
- We may not have the ability to raise the funds necessary to settle conversions of the notes in cash or to repurchase the notes upon a fundamental change, and our future debt may contain limitations on our ability to pay cash upon conversion or repurchase of the notes.
- The accounting method for convertible debt securities that may be settled in cash, such as the Convertible Notes, could have a material effect on our reported financial results.
- Other manufacturers may discontinue or recall testing products used in our business.
- We depend substantially upon third parties for payment of services, which could have a material adverse effect on our cash flows and results of operations.
- We may fail to protect our facilities, which could have a material adverse effect on our business, results of operations and financial condition.
- We are dependent on key personnel and need to hire additional qualified personnel in order for our business to succeed.
- Failure in our information technology systems could significantly increase testing turn-around time or billing processes and otherwise disrupt our 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.
- We use biological and hazardous materials that require considerable expertise and expense for handling, storage or disposal and may result in claims against us.
- An pandemic of the coronavirus disease is ongoing across the world and may adversely affect our operations and financial condition.

Risks Related to Our Common Stock

- The price of our common stock may fluctuate significantly.
- The capped call transactions may affect the value of the notes and our common stock.
- Conversion of the Convertible Notes may dilute the ownership interest of existing stockholders, or may otherwise depress the price of our common stock.

Risks Relating to Regulation

- If we were required to conduct additional clinical trials prior to continuing to sell our current tests or launching any other tests we may develop, those trials could result in delays or failure to obtain necessary regulatory approvals, which could harm our business.
- Proposed government regulation of Laboratory Developed Tests may result in delays to launching certain laboratory tests and increase our costs to implement new tests.
- Healthcare reform programs may impact our business and the pricing we receive for our services.
- Steps taken by government payers, such as Medicare and Medicaid to control the utilization and reimbursement of healthcare services, including esoteric testing may diminish our net revenue.
- Changes in regulations, payer policies or contracting arrangements with payers 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.
- Failure to comply with environmental, health and safety laws and regulations, including the federal Occupational Safety and Health Administration Act, and the Needlestick Safety and Prevention Act could result in fines and penalties and loss of licensure, and have a material adverse effect upon our business.
- Our net revenue will be diminished if payers do not adequately cover or reimburse our services.
- Third party billing is extremely complicated and results in significant additional costs to us.
- 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.
- The failure to comply with significant government regulation and laboratory operations may subject us to liability, penalties or limitation of operations.
- The failure to comply with physician self-referral laws may subject us to liability, penalties or limitation of operations.
- The failure to comply with Anti-Kickback laws may subject us to liability, penalties or limitation of operations.
- A failure to comply with governmental payer regulations could result in our being excluded from participation in Medicare, Medicaid or other governmental payer programs.
- Failure to comply with the HIPAA Privacy, Security and Breach Notification Regulations may increase our operational costs.
- We are subject to security risks which could harm our operations

Risks Relating to Our Business

The COVID-19 pandemic is highly dynamic in the United States and throughout the world and may adversely affect our operations and financial condition.

We are subject to risks related to the public health crises such as the global pandemic associated with COVID-19. Economic and health conditions in the United States and across most of the globe continue to change rapidly. Due to the COVID-19 pandemic, the Company has experienced significant volatility, including periods of material decline compared to prior year periods, in testing volumes in the Company's base business (which excludes COVID-19 molecular and antibody testing). Demand may fluctuate depending on the duration and severity of the COVID-19 pandemic, the length of time it takes for normal economic and operating conditions to resume, additional governmental actions that may be taken and/or extensions of time for restrictions that have been imposed to date, and numerous other uncertainties. Such events may result in business disruption, reduced revenues and number of tests, any of which could materially affect our business, financial condition, and results of operations.

Numerous state and local jurisdictions have imposed, and others in the future may impose, "shelter-in-place" orders, quarantines, executive orders and similar government orders and restrictions for their residents to control the spread of COVID-19. Starting in mid-March 2020, the governor of California, where several of our laboratories are located, issued "shelter-in-place" or "stay at home" orders restricting non-essential activities, travel and business operations for an indefinite period of time, subject to certain exceptions for necessary activities, which was followed by similar orders in other states in which we operate, including in Florida, where our headquarters is located. Various orders have been implemented and subsequently relaxed however, disruptions continue and have carried into 2021. Such orders or restrictions, have resulted in our administrative headquarters closing, work stoppages, slowdowns and delays, travel restrictions and cancellation of events, among other effects, thereby negatively impacting our operations. Other disruptions or potential disruptions include restrictions on our personnel and personnel of partners to travel and access customers; delays in approvals by regulatory bodies; delays in product development efforts; and additional government requirements or other incremental mitigation efforts that may further impact our testing capacity.

The COVID-19 pandemic is affecting the Company's customers, suppliers, vendors, and other business partners, but the Company is not able to assess the full extent of the current impact nor predict the ultimate consequences that may result. At this time, we have not experienced interruptions in our operations due to supplier delays. We have established a COVID-19 procurement team to partner with our suppliers to reduce the risk of disruption. Distribution channels have not been disrupted as incoming and outgoing tests are delivered via major carriers.

While the potential economic impact brought by and the duration of COVID-19 may be difficult to assess or predict, the widespread pandemic has resulted in, and may continue to result in, significant disruption of global financial markets and a recession or market correction resulting from the spread of COVID-19 could materially affect our business and the value of our common stock. The Company is continuously monitoring its own operations and intends to take appropriate actions to mitigate the risks arising from the COVID-19 pandemic to the best of its abilities, but there can be no assurances that the Company will be successful in doing so. To the extent the Company is able to obtain information about and maintain communications with its customers, suppliers, vendors, and other business partners, the Company will seek to minimize disruptions to its supply chain. The ultimate extent of the effects of the COVID-19 pandemic on the Company, including revenue generated from COVID-19 PCR testing, is highly uncertain and will depend on future developments which cannot be predicted.

Our business is subject to rapid scientific change, which could have a material adverse effect 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. For example, new tests developed by our competitors may prove superior and replace our existing tests. Additionally, certain technological changes such as advances in point-of-care testing, could reduce the need for the laboratory tests we provide. 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, which could have a material adverse effect on our business, results of operations and financial condition.

Increased competition, including price competition, could have a material adverse impact on our net revenues and profitability.

The market for genetic and molecular testing services is highly competitive and we expect competition to continue to increase. Our major competitors, including Quest Diagnostics and Laboratory Corporation of America, are large national laboratories that possess greater name recognition, larger customer bases, and significantly greater financial resources and employ substantially more personnel than we do. Our competitors may develop products and services that are superior to ours or that achieve greater market acceptance than our offerings. Many of our competitors have long established relationships with their customers and third-party payers. We cannot assure you that we will be able to compete successfully with such entities in the future.

The laboratory business is intensely competitive both in terms of price and service. Pricing of laboratory testing services is often one of the most significant factors used by health care providers and third-party payers in selecting a laboratory. As a result of the laboratory industry undergoing consolidation, larger laboratory providers are able to increase cost efficiencies

afforded by large-scale automated testing. This consolidation results in greater price competition. We may be unable to increase cost efficiencies sufficiently, if at all, and as a result, our net earnings and cash flows could be negatively impacted by such price competition. Additionally, we may also face changes in fee schedules, competitive bidding for laboratory services or other actions or pressures reducing payment schedules as a result of increased or additional competition.

We face the risk of capacity constraints, which could have a material adverse effect on our business, results of operations and financial condition.

We compete in the market place primarily on three factors: i) the quality and accuracy of our test results; ii) the speed or turn-around times of our testing services; and iii) our ability to provide after-test support to those physicians requesting consultation. Any unforeseen increase in the volume of clients could strain the capacity of our personnel and systems, leading to unacceptable turn-around times, or customer service failures. In addition, as the number of our clients and specimens increases, our products, services, and infrastructure may not be able to scale accordingly. We may also not be able to hire additional licensed medical technologists that we need to handle increased volumes. Any failure to handle higher volume of requests for our products and services could lead to the loss of established clients and have a material adverse effect on our business, results of operations and financial condition. If we produce inaccurate test results, our clients 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.

Failure to develop, or acquire licenses for, new or improved testing technologies could materially and adversely affect our revenues.

Our industry is subject to rapidly changing technology and new product introductions. Other companies or individuals, including our competitors, may obtain patents or other intellectual property rights that would prevent, limit or interfere with our ability to develop, perform or sell our solutions or operate our business or increase our costs. In addition, they could introduce new tests, technologies or services that may result in a decrease in the demand for our services or cause us to reduce the prices of our services. Our success will depend, in part, on our ability to develop, acquire or license new and improved technologies on favorable terms and to obtain appropriate coverage and reimbursement for these technologies. We may not be able to negotiate acceptable licensing arrangements and we cannot be certain that such arrangements will yield commercially successful diagnostic tests. If we are unable to license these testing methods at competitive rates, our research and development costs may increase as a result. In addition, if we are unable to license new or improved technologies to expand our testing operations, our testing methods may become outdated when compared with our competition and testing volume and revenue may be materially and adversely affected.

Clinical trials and research services create a risk of liability.

We conduct clinical trials, which ordinarily involve testing an investigational drug on a limited number of individuals to evaluate a product's safety, determine a safe dosage range and identify side effects. Errors or omissions could occur during a clinical trial that may result in harm to study volunteers, or if unnoticed and regulatory approval received, to consumers of the drug, or that undermine the usefulness of the clinical trial or data from the clinical trial and may delay the entry of a drug to the market.

Our contracts with the pharmaceutical firms include provisions entitling us to be indemnified or entitling us to a limitation of liability. These provisions do not uniformly protect us against liability arising from certain of our own actions, such as gross negligence or misconduct. We could be materially and adversely affected if we were required to pay damages or bear the costs of defending any claim which is not covered by or exceeds a contractual indemnification provision or in the event that a party who must indemnify us does not fulfill its indemnification obligations or which is beyond the level of our insurance coverage.

Clinicians or patients using our services may sue us, and our insurance may not sufficiently cover all claims brought against us, which will increase our expenses.

The development, marketing, sale and performance of healthcare services expose us to the risk of litigation, including professional negligence or product liability claims were someone to allege that our tests failed to perform as designed. We may also be subject to liability for errors in the test results we provide to pathologists and oncologists or for a misunderstanding of, or inappropriate reliance upon, the information we provide. Damages assessed in connection with, and the costs of defending, any legal action could be substantial. We may be faced with litigation claims that exceed our insurance coverage or are not covered under any of our insurance policies. In addition, litigation could have a material adverse effect on our business if it impacts our existing and potential customer relationships, creates adverse public relations, diverts management resources from the operation of the business, or hampers our ability to otherwise conduct our business.

Our investments in marketable securities are subject to certain risks which could affect our overall financial condition, results of operations or cash flows.

We invest a portion of our available cash and cash equivalents by purchasing marketable securities in a managed portfolio and direct investments in a variety of debt securities, including U.S. Treasury securities and corporate debt securities. The primary objective of our investment activity is to maintain the safety of principal, provide for future liquidity requirements while maximizing yields without significantly increasing risk. Should any of our investments or marketable securities lose value or have their liquidity impaired, it could affect our overall financial condition. Additionally, should we choose or are required to sell these securities in the future at a loss, our consolidated operating results or cash flows may be affected.

Servicing our Convertible Notes will require a significant amount of cash. We may not have sufficient cash flow from our business to pay our obligations under the notes, which could adversely affect our financial condition and operating results.

In April 2020, we issued $201.3 million aggregate principal amount of 1.25% Convertible Senior Notes due May 2025 (the "2025 Convertible Notes"), and in January 2021, we issued $345 million aggregate principal amount of 0.25% Convertible Senior Notes due May 2028 (the "2028 Convertible Notes" and, together with the 2025 Convertible Notes, the "Convertible Notes"). We may also incur additional indebtedness in the future. Our ability to make scheduled payments of the principal of, to pay interest on, or to refinance our indebtedness depends on our future performance, which is subject to economic, financial, competitive, and other factors beyond our control. Our business may not continue to generate cash flow from operations in the future sufficient to service our indebtedness and make necessary capital expenditures. If we are unable to generate such cash flow, we may be required to adopt one or more alternatives, such as selling assets, restructuring debt, or obtaining additional equity capital on terms that may be onerous or highly dilutive. Our ability to refinance the Convertible Notes will depend on the capital markets and our financial condition at such time. We may not be able to engage in any of these activities or engage in these activities on desirable terms, which could result in a default on our debt obligations.

We may not have the ability to raise the funds necessary to settle conversions of the notes in cash or to repurchase the notes upon a fundamental change, and our future debt may contain limitations on our ability to pay cash upon conversion or repurchase of the notes.

Holders of the notes have the right to require us to repurchase their notes upon the occurrence of a fundamental change at a repurchase price equal to 100% of the principal amount of the notes to be repurchased, plus accrued and unpaid interest, if any. In addition, upon conversion of the notes, unless we elect to deliver solely shares of our common stock to settle such conversion (other than paying cash in lieu of delivering any fractional share), we will be required to make cash payments in respect of the notes being converted. However, we may not have enough available cash or be able to obtain financing at the time we are required to make repurchases of notes surrendered therefor or notes being converted. In addition, our ability to repurchase the notes or to pay cash upon conversions of the notes may be limited by law, by regulatory authority or by agreements governing our future indebtedness. Our failure to repurchase notes at a time when the repurchase is required by the indenture or to pay any cash payable on future conversions of the notes as required by the indenture would constitute a default under the indenture. A default under the indenture or the occurrence of the fundamental change may also lead to a default under agreements governing our future indebtedness. If the repayment of the related indebtedness were to be accelerated after any applicable notice or grace periods, we may not have sufficient funds to repay the indebtedness and repurchase the notes or make cash payments upon conversions thereof.

The accounting method for convertible debt securities that may be settled in cash, such as the Convertible Notes, could have a material effect on our reported financial results.

In August 2020, the FASB issued ASU No. 2020-06, *Debt-Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging-Contracts in Entity's Own Equity (Subtopic 815-40), Accounting for Convertible Instruments and Contracts in an Entity's Own Equity*, which we adopted effective January 1, 2021 and which applies to the Convertible Notes. ASU 2020-06 eliminates the beneficial conversion and cash conversion accounting models for convertible instruments such as the Convertible Notes, which could reduce non-cash interest expense, and thereby decreasing net loss (or increasing net income), which could affect our reported financial results. Additionally, the treasury stock method for calculating earnings per share will no longer be allowed for convertible debt instruments whose principal amount may be settled using shares. Rather, the if-converted method will be required. Application of the "if-converted" method may reduce our reported diluted earnings per share.

The capped call transactions may affect the value of the notes and our common stock.

In connection with the issuance of the 2028 Convertible Notes, we have entered into capped call transactions with the option counterparties. Upon conversion of any of the 2028 Convertible Notes, we will satisfy our conversion obligation by paying or delivering, as the case may be, cash, shares of our common stock, or a combination of cash and shares of our common stock, at our election, and the capped call transactions are intended to reduce the potential dilution upon conversion of the notes and/or offset some or all of any cash payments we are required to make in excess of the principal amount of converted notes, as the case may be, with such reduction and/or offset subject to a cap.

In connection with these transactions, the option counterparties or their respective affiliates may modify their hedge positions related to the capped call transactions by entering into or unwinding various derivatives with respect to our common stock and/or purchasing or selling our common stock or other securities of ours in secondary market transactions prior to the maturity of the 2028 Convertible Notes (and are likely to do so during any observation period related to a conversion of notes or following any repurchase or redemption of the notes). This activity could also cause or avoid an increase or a decrease in the market price of our common stock or the notes.

Conversion of the Convertible Notes may dilute the ownership interest of existing stockholders, or may otherwise depress the price of our common stock.

The conversion of some or all of the Convertible Notes may dilute the ownership interests of existing stockholders to the extent we deliver shares of our common stock upon conversion of any of the Convertible Notes. We have entered into capped call transactions with respect to the 2028 Convertible Notes to reduce the risk of dilution, but to the extent that the conversion price of the 2028 Convertible Notes exceeds the cap price of the capped calls or to the extent that the Convertible Notes are converted, such conversions will dilute the ownership interests of our existing stockholders The Convertible Notes may from time to time in the future be convertible at the option of their holders prior to their scheduled terms under certain circumstances. Any sales in the public market of the common stock issuable upon such conversion could adversely affect prevailing market prices of our common stock. In addition, the existence of the Convertible Notes may encourage short selling by market participants because conversion could be used to satisfy short positions, and the anticipated conversion of the notes or the Convertible Notes into shares of our common stock could depress the price of our common stock.

Other manufacturers may discontinue or recall testing products used in our business.

We rely heavily on reagents, test kits and instruments manufactured by third parties in our testing services. From time to time, manufacturers discontinue or recall the reagents, test kits or instruments used by us to perform laboratory testing. Such discontinuations or recalls could adversely affect our costs, testing volume, costs and revenues.

We depend substantially upon third parties for payment of services, which could have a material adverse effect on our cash flows and results of operations.

Our business consists of clinical laboratories that provide medical testing services for doctors, hospitals, and other laboratories on patient specimens that are sent to our laboratory. In the case of some specimen referrals that are received for patients that are not in-patients or out-patients at a hospital or institution or otherwise sent by another reference laboratory, we typically bill the patient's insurance company or a government program for our services. As such, we rely on the cooperation of numerous third-party payers, including but not limited to Medicare, Medicaid, and various insurance companies, to get paid for performing services on behalf of our clients and their patients. The amount of such third-party payments is governed by contractual relationships in cases where we are a participating provider for a specified insurance company or by established government reimbursement rates in cases where we are an approved provider for a government program such as Medicare or Medicaid. However, we do not have contractual relationships with some of the insurance companies with whom we deal, nor are we necessarily able to become an approved provider for all government programs. In such cases, we are deemed to be a non-participating provider and there is no contractual assurance that we will be able to collect the amounts billed to such insurance companies or government programs. Currently, we are not a participating provider with some of the insurance companies we bill for our services. Until such time we become a participating provider with such insurance companies, there can be no contractual assurance that we will be paid for the services we bill to such insurance companies or patients, and such third-parties may change their reimbursement policies for non-participating providers in a manner that may have a material adverse effect on our cash flow or results of operations. When new Current Procedural Terminology ("CPT") codes are introduced by the American Medical Association it often takes time for commercial insurance providers to recognize the new codes, which can significantly impact the timing of payments, if any, and can increase our days-sales-outstanding. Medicare has also, at times, issued codes or coding guidance that conflicts with the AMA CPT coding, which can cause confusion when secondary insurance is involved. Insurance companies may also try to steer business away from us towards in-network providers by sending letters to physicians and even imposing financial penalties if they continue to send us business.

We may fail to protect our facilities, which could have a material adverse effect on our business, results of operations and financial condition.

Our operations are dependent in part upon our ability to protect our laboratory operations against physical damage from explosions, fire, floods, hurricanes, earthquakes, power loss, telecommunications failures, break-ins and similar events. We do not presently have an emergency back-up generator in place at our Tampa, Florida, Nashville, Tennessee, Atlanta, Georgia, or Rolle, Switzerland laboratories locations which would otherwise 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 clients, which could have a material adverse effect on our business, results of operations and financial condition.

Failure in our information technology systems could significantly increase testing turn-around time or billing processes and otherwise disrupt our operations.

Our laboratory operations depend, in part, on the continued performance of our information technology systems. Our information technology systems are potentially vulnerable to physical or electronic break-ins, computer viruses and similar disruptions. Sustained system failures or interruption of our systems in one or more of our laboratory operations could disrupt our ability to process laboratory requisitions, perform testing, provide test results in a timely manner and/or bill the appropriate party. Breaches with respect to personally identifiable information and protected health information ("PHI") could result in violations of the Health Insurance Portability and Accountability Act of 1996 ("HIPAA"), the Health Information Technology for Economic and Clinical Health Act, ("HITECH Act"), and analogous state laws that protect the privacy, confidentiality and security of such information, and risk the imposition of significant fines and penalties. Failure of our information technology systems could adversely affect our business, results of operations and financial condition.

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 provider of transport services, FedEx Corporation (the "Carrier") for reliable and secure point-to-point transport of patient samples to our laboratory and enhanced tracking of these patient samples. Should the Carrier 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 the Carrier 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 the Carrier. 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 bio hazardous 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.

Risks Related to Our Common Stock

The price of our common stock may fluctuate significantly.

The price of our common stock has been, and is likely to continue to be, volatile, which means that it could decline substantially within a short period of time. The price of our common stock could fluctuate significantly for many reasons including the following:

- future announcements concerning us or our competitors;
- regulatory developments and enforcement actions bearing on advertising, marketing or sales;
- reports and recommendations of analysts and whether or not we meet the milestones and metrics set forth in such reports; gaining or losing large customers or managed care plans;
- introduction of new products or services and related insurance coverage;

- acquisition or loss of significant manufacturers, distributors or suppliers or an inability to obtain sufficient quantities of materials needed to provide our services;
- quarterly variations in operating results;
- business acquisitions or divestitures;
- changes in the regulation of Laboratory Developed Tests ("LDTs");
- changes in governmental or third-party reimbursement practices and rates; and fluctuations in the economy, political events or general market conditions.

In addition, stock markets in general and the market for shares of health care stocks in particular, have experienced extreme price and volume fluctuations in recent years, fluctuations that frequently have been unrelated to the operating performance of the affected companies. These broad market fluctuations may adversely affect the market price of our common stock. The market price of our common stock could decline below its current price and the market price of our shares may fluctuate significantly in the future. These fluctuations may be unrelated to our performance.

Risks Relating to Regulation

If we were required to conduct additional clinical trials prior to continuing to sell our current tests or launching any other tests we may develop, those trials could result in delays or failure to obtain necessary regulatory approvals, which could harm our business.

In the event that, in the future, the FDA begins to regulate our tests, it may require additional pre-market clinical testing prior to submitting a regulatory notification or application for commercial sales. Such pre-market clinical testing could delay the commencement or completion of clinical testing, significantly increase our test development costs, delay commercialization of any future tests, and interrupt sales of our current tests. Many of the factors that may cause or lead to a delay in the commencement or completion of clinical trials may also ultimately lead to delay or denial of regulatory clearance or approval. The commencement of clinical trials may be delayed due to insufficient patient enrollment, which is a function of many factors, including the size of the patient population, the nature of the protocol, the proximity of patients to clinical sites and the eligibility criteria for the clinical trial.

We may find it necessary to engage contract research organizations to perform data collection and analysis and other aspects of our clinical trials, which might increase the cost and complexity of our trials. We may also depend on clinical investigators, medical institutions and contract research organizations to perform the trials. If these parties do not successfully carry out their contractual duties or obligations or meet expected deadlines, or if the quality, completeness or accuracy of the clinical data they obtain is compromised due to the failure to adhere to our clinical protocols or for other reasons, our clinical trials may have to be extended, delayed or terminated. Many of these factors would be beyond our control. We may not be able to enter into replacement arrangements without undue delays or considerable expenditures. If there are delays in testing or approvals as a result of the failure to perform by third parties, our research and development costs would increase, and we may not be able to obtain regulatory clearance or approval for our tests. In addition, we may not be able to establish or maintain relationships with these parties on favorable terms, if at all. Each of these outcomes would harm our ability to market our tests and/or to achieve sustained profitability.

Proposed government regulation of LDTs may result in delays to launching certain laboratory tests and increase our costs to implement new tests.

We frequently develop diagnostic tests for clients that cannot currently be provided using test kits approved or cleared by the FDA. The FDA has been considering changes to the way that it regulates these Laboratory Developed Tests ("LDTs"). Currently all LDTs are conducted and offered in accordance with CLIA, and individual state licensing procedures. The FDA has published a draft guidance document that would require FDA clearance or approval of a subset of LDTs, as well as a modified approach for some lower risk LDTs that may require FDA oversight short of the full premarket approval or clearance process. Congress may enact legislation to provide a regulatory framework for the FDA's role with regard to LDTs. As a result, there is a risk that the FDA's proposed regulatory process could delay the offering of certain tests and result in additional validation costs and fees. There is also an associated risk that some tests currently offered might become subject to FDA premarket approval or clearance. This FDA approval or clearance process may be time-consuming and costly, with no guarantee of ultimate approval or clearance.

On July 31, 2014 the FDA issued a notification to Congress of the "Anticipated Details of the Draft Guidance for Industry, Food and Drug Administration Staff, and Clinical Laboratories: Framework for Regulatory Oversight of Laboratory Developed Tests," or the Draft LDT Guidance. As described in this notification, the FDA planned to provide draft guidance to clinical laboratories that develop their own LDTs regarding how the FDA intends to regulate such laboratories under the Federal Food, Drug, and Cosmetic Act. On October 3, 2014 the FDA issued the draft guidance to clinical laboratories. The regulatory

framework will use a risk-based approach to enforce the FDA's premarket review requirements, and for high-risk tests, the framework may require laboratories to use FDA-approved tests, if available, rather than LDTs. If implemented, the framework outlined in the Draft LDT Guidance may also require us to obtain premarket clearance or approval for certain of our LDTs. Implementation of this framework would include a lengthy phase-in period ranging from two to nine years depending on the risk assessment rating of each particular test. The FDA provided an opportunity for public comment through February 2015 and received numerous public comments in response to the Draft LDT Guidance. In January 2017 the FDA announced that it would not issue a final guidance on the oversight of LDTs at the request of various stakeholders to allow for further public discussion on an appropriate oversight approach, and to give congressional authorizing committees the opportunity to develop a legislative solution. At the same time, Congress, the FDA, and various industry stakeholders have worked to provide recommendations for comprehensive reform of LDTs. In 2018, Congress submitted a legislative discussion draft, the Diagnostic Accuracy and Innovation Act ("DAIA") to the FDA and requested technical assistance on the draft. FDA's technical assistance consisted of recommendations for significant changes in the bill. In December 2018, Congress released an updated bill, the Verifying Accurate Leading-edge IVCT Development ("VALID") Act that is largely consistent with the FDA's technical assistance on DAIA. In March 2020, Congress introduced a revised VALID Act with bipartisan sponsorship. In August 2020, HHS, in an unsigned statement posted on its website and not published in the Federal Register, barred FDA from requiring premarket review for any LDT, including those for COVID-19, unless FDA goes through formal rulemaking procedures. However, it remains unknown whether Congress will enact legislation regulating LDTs and, if so, whether the legislation will be similar to the framework described in the Draft LDT Guidance, or in the VALID act. This legislation and resulting FDA regulation may result in increased regulatory burdens for us to register and continue to offer our tests or to develop and introduce new tests and may increase our costs. We do not yet know which of our tests would be classified as high-risk and would require a full FDA approval. If such approval was required, we cannot be certain that our tests would obtain FDA approval or clearance.

If the FDA and/or congressional authorizing committees begin to regulate our tests, it could require a significant volume of applications with the FDA and/or document responses to congressional authorizing committees which would be burdensome. Furthermore, FDA and/or congressional authorizing committees could take a long time to review such applications and/or document responses if every laboratory in the country files a large volume of applications and/or document responses for each of their LDTs.

In November of 2017, CMS initiated a national coverage analysis for the use of Next Generation Sequencing "NGS" diagnostic tests for patients with advanced cancer. The proposed decision memo was released and open to a public comment period. On March 16, 2018, CMS issued a final decision memorandum for NGS as a diagnostic laboratory test and determined it to be reasonable and necessary and covered nationally, when performed in a CLIA-certified laboratory, when ordered by a treating physician and when all of the following requirements are met: (a) the patient has either recurrent, relapsed, refractory, metastatic, or advanced stages III or IV cancer; (b) the patient has either not been previously tested using the same NGS test for the same primary diagnosis of cancer or has had repeat testing using the same NGS test only when a new primary cancer diagnosis is made by the treating physician; and (c) the patient has decided to seek further cancer treatment (e.g., therapeutic chemotherapy). CMS also determined that the diagnostic laboratory test using NGS must have: FDA approval or clearance as a companion in vitro diagnostic; an FDA approved or cleared indication for use in that patient's cancer; and results provided to the treating physician for management of the patient using a report template to specify treatment options. On October 29, 2019, CMS issued a proposed decision memo open to a public comment period that would expand coverage of NGS test when performed in a CLIA-certified laboratory, when ordered by a treating physician and when all of the following requirements are met (a) the patient has ovarian or breast cancer; (b) the patient has clinical indications for germline (inherited) testing; (c) the patient has risk factors for germline (inherited) breast or ovarian cancer; and (d) the patient has not been previously tested using NGS. These CMS changes to reimbursement for NGS testing could directly affect our revenue for this test type.

Healthcare reform programs may impact our business and the pricing we receive for our services.

In March of 2010, health care reform legislation known as the "Patient Protection and Affordable Care Act," also known as the ACA, was passed into law. The ACA also makes changes that are expected to significantly impact the pharmaceutical and medical device industries and clinical laboratories. For example, the ACA contains several provisions that seek to limit Medicare spending in the future. One key provision in the ACA is the establishment of "Accountable Care Organizations," or ("ACOs"), under which hospitals and physicians are able to share savings that result from improved coordination of health care. We cannot predict how the continued establishment and implementation of these new business models will impact our business. There is the possibility that value-based payment models, such as ACOs, will drive down the utilization and/or reimbursement rates for our services. We may not be able to gain access into certain ACOs. These changes could have an adverse and material impact on our operations.

The ACA provided for states to create health insurance "Marketplaces" where individuals can compare and enroll in Qualified Health Plans, ("QHPs"). Individuals with an income less than 400% of the federal poverty level that purchase insurance on a Marketplace may be eligible for federal subsidies to cover a portion of their health insurance premium costs and cost-sharing of co-insurance or co-pay obligations. Our patients may be enrolled in QHPs, and we may begin to submit bills to QHPs for

services we provide. The presence of federal funds in QHPs in the form of subsidies and cost-sharing may subject providers to heightened government scrutiny and enforcement, which could significantly increase the cost of compliance and could materially impact our operations. For example, it is not clear whether the availability of these federal subsidies classifies a QHP as a federal healthcare program, particularly for purposes of federal fraud and abuse laws. In letters published on October 30, 2013 and February 6, 2014, the former Secretary of the Department of Health & Human Services, ("DHHS"), Kathleen Sebelius, indicated that DHHS does not consider QHPs to be federal healthcare programs. However, a judge may not agree with this statement by Secretary Sebelius, and other government regulators, including, but not limited to the current of future Secretary of the DHHS, may take a different position. For example, subsequent letters from U.S. Senator Charles Grassley to Secretary Sebelius and Attorney General Eric Holder on November 7, 2013 and February 12, 2014 indicate that this issue remains an outstanding question. If QHPs are classified as federal healthcare programs, it could significantly increase our costs of compliance.

In January 2017, Congress voted to adopt a budget resolution for fiscal year 2017, or the Budget Resolution, that authorizes the implementation of legislation that would repeal portions of the ACA. Further, in January 2017, President Trump signed an Executive Order directing federal agencies with authorities and responsibilities under the ACA to waive, defer, grant exemptions from, or delay the implementation of any provision of the ACA that would impose a fiscal or regulatory burden on states, individuals, healthcare providers, health insurers, or manufacturers of pharmaceuticals or medical devices. In December of 2017, President Trump signed into law Public Law No. 115-97, which made changes to the tax code and included, among other things, a repeal of the ACA's penalties for the individual mandate, a provision that required individuals to buy health insurance or pay a fine. On December 14, 2018 a federal district court judge in the Northern District of Texas ruled that Public Law No. 115-97 rendered the individual mandate unconstitutional and further ruled that the rest of the ACA was inseverable from the individual mandate, rendering the ACA in its entirety invalid. In December 2019, the U.S. Fifth Circuit Court of Appeals held that the individual mandate is unconstitutional because it can no longer be read as a tax, and there is no other constitutional provision that justifies this exercise of congressional power, and remanded the severability question back to the district court to provide additional analysis of the provisions of the ACA as they currently exist. The Supreme Court consolidated docketed appeals in the case California v. Texas and agreed to review the severability issue as well as the standing issue raised by the Fifth Circuit during the 2020-2021 term. Oral arguments were heard in November 2020 and the final opinion is pending. Additionally, the ACA continues to be challenged in other lawsuits. Congress also could consider subsequent legislation to replace elements of the ACA that are repealed or ruled invalid. Because of the continued uncertainty about the implementation and constitutionality of the ACA, there can be no assurance at this time that the implementation (or repeal) of these provisions, or the ACA as a whole, will not have a material adverse effect on our business.

Steps taken by government payers, such as Medicare and Medicaid to control the utilization and reimbursement of healthcare services, including esoteric testing may diminish our net revenue.

We face efforts by government payers to reduce utilization as well as reimbursement for laboratory testing services. Changes in governmental reimbursement may result from statutory and regulatory changes, prospective and/or retroactive rate adjustments, administrative rulings and other policy changes.

From time to time, legislative freezes and updates affect some of our tests that are reimbursed by the Medicare program under the Medicare Physician Fee Schedule, ("MPFS"), or the Clinical Laboratory Fee Schedule, ("CLFS"). The MPFS is updated on an annual basis. In the past, the MPFS was updated using a prescribed statutory formula; (i.e., the sustainable growth rate formula). The Medicare Access and CHIP Reauthorization Act of 2015, ("MACRA"), repealed the previous statutory formula and specified new annual conversion factors for calendar years 2015 and beyond. If the new annual conversion factor results in negative reimbursement in future years, the resulting decrease in payment may adversely affect our revenue, business, operating results, financial condition and prospects.

In addition, recent laws have made changes to Medicare reimbursement for our tests that are reimbursed under the CLFS, many of which have already gone into effect. In June 2016, CMS published the Clinical Laboratory Fee CLFS final rule entitled "Medicare Program: Medicare Clinical Diagnostic Laboratory Tests Payment System" (CMS-1621-F). The final rule provides regulations to implement the provisions of the Protecting Access to Medicare Act of 2014, ("PAMA"), which was signed into law in April 2014. Under the final rule, laboratories, including physician office laboratories, are required to report private payer rate and volume data if they:

- Have $12,500 or more in Medicare revenues from laboratory services on the CLFS, and
- Receive more than 50 percent of their Medicare revenues from CLFS or PFS during a data collection period.

Tests that meet the criteria for being considered new advanced tests will be paid at actual list charge during an initial period of three calendar quarters. Once the initial period is over, payment for new, advanced tests would be based on the weighted median private payer rate reported by the single laboratory that performs the new ADLT. Advanced tests are tests furnished by only one laboratory that include a unique algorithm and, at a minimum, are an analysis of RNA, DNA or proteins or are cleared or approved by the FDA.

Applicable laboratories must report data that includes the payment rate (reflecting all discounts, rebates, coupons and other price concessions) and the volume of each test that was paid by each private payer (including health insurance issuers, group health plans, Medicare Advantage plans and Medicaid managed care organizations). The definition of "applicable" laboratory may exclude certain types of laboratories that generally receive more favorable pricing than other laboratories, and thus the make-up of laboratories reporting pricing data to CMS under the final rule may result in lower overall pricing data. Beginning in 2017, the Medicare payment rate for each clinical diagnostic lab test is equal to the weighted median amount for the test from the most recent data collection period. For example, applicable laboratories were required to collect private payer data from January 1, 2016 through June 30, 2016 and report it to CMS by March 31, 2017. The new Medicare CLFS rates (based on weighted median private payer rates) were released in November 2017 and were effective on January 1, 2018. For the years 2017 through 2019, the amount of reduction in the Medicare rate (if any) shall not exceed 10 percent from the prior year's rate. From January 1, 2019 through June 30, 2019, applicable laboratories are required to collect private payer data and report it to CMS by March 31, 2021. The new Medicare CLFS rates (based on weighted median private payer rates) will be released in November 2020 and will become effective January 1, 2021. For 2020, any reduction in the Medicare rate shall not exceed 10 percent of the 2019 rates, and for the years 2021 through 2023, any reduction in the Medicare rate shall not exceed 15 percent from the prior year's rate. It is too early to predict the impact on reimbursement for our tests reimbursed under the CLFS, though we believe the government's goal is to reduce Medicare program payments for CLFS tests. Specifically, CMS projected that the effect of this rule on the Medicare program will be a savings of $360 million in program payments for CLFS tests furnished in FY 2017, and a savings of $5.14 billion over 10 years, although estimates by the Congressional Budget Office have been significantly less. CMS also finalized its proposal that a laboratory's failure to comply with reporting obligations, or a laboratory that makes a misrepresentation or omission in reporting required information, could lead to liability under the Civil Monetary Penalties Law.

Also under PAMA, CMS is required to adopt temporary billing codes to identify new tests and new advanced diagnostic laboratory tests that have been cleared or approved by the FDA. For an existing test that is cleared or approved by the FDA and for which Medicare payment is made, CMS is required to assign a unique billing code if one has not already been assigned by the agency. Further, PAMA provides special payment status to "advanced diagnostic laboratory tests," ("ADLTs"), to allow such ADLTs to be paid using their actual list charge amount during a certain time frame. We cannot determine at this time the full impact of the new law on our business, financial condition and results of operations.

CMS also adopts regulations and policies, from time to time, revising, limiting or excluding coverage or reimbursement for certain of the tests that we perform. Likewise, many state governments are under budget pressures and are also considering reductions to their Medicaid fees. Further, Medicare, Medicaid and other third party payers audit for overutilization of billed services. Even though all tests performed by us are ordered by our clients, who are responsible for establishing the medical necessity for the tests ordered, we may be subject to recoupment of payments, as the recipient of the payments for such tests, in the event that a third party payer such as CMS determines that the tests failed to meet all applicable criteria for payment. When third party payers like CMS revise their coverage regulations or policies, our costs generally increase due to the complexity of complying with additional administrative requirements. Furthermore, Medicaid reimbursement and regulations vary by state. Accordingly, we are subject to varying administrative and billing regulations, which also increase the complexity of servicing such programs and our administrative costs. Finally, state budget pressures have encouraged states to consider several courses that may impact our business, such as delaying payments, restricting coverage eligibility, service coverage restrictions and imposing taxes on our services.

In certain jurisdictions, Palmetto GBA administers the Molecular Diagnostic Services Program, ("MolDx"), and establishes coverage and reimbursement for certain molecular diagnostic tests, including many of our tests. To obtain Medicare coverage for a molecular diagnostic test (FDA approved or LDT), laboratories must apply for and obtain a unique test identifier or what is known as a "Z" code. For newly developed tests or for established tests that have not been validated for clinical and analytical validity and clinical utility, laboratories must submit a detailed dossier of clinical data to substantiate that the test meets Medicare's requirements for coverage. We have received favorable coverage for many of our molecular tests, however we have also received non-coverage determinations for many newer tests. The field of molecular diagnostics is evolving very rapidly, and clinical studies on many new tests are still underway. We cannot be assured that some of our molecular tests will ever be covered services by Medicare, nor can we determine when the medical literature will meet the standard for coverage that Medicare administrative contractors have set.

In recent years, Medicare has encouraged beneficiaries to participate in managed care programs, known as "Medicare Advantage" programs, and has encouraged beneficiaries from the traditional fee-for-service Medicare program to switch to Medicare Advantage programs. This has resulted in rapid growth of health insurance and managed care plans offering Medicare Advantage programs and growth in Medicare beneficiary enrollment in these programs. Also in recent years, many states have increasingly mandated that Medicaid beneficiaries enroll in managed care arrangements. If these efforts continue to be successful, we may experience a further shift of traditional Medicare and Medicaid fee-for-service beneficiaries to managed care programs. As a result, we would be required to contract with those private managed care programs in order to be reimbursed for services provided to their Medicare and Medicaid members. There can be no assurance that we will be

successful in entering into agreements with these managed care programs at rates of payment similar to those we realize from our non-managed care lines of business.

Effective January 1, 2018 CMS implemented an additional exception to the laboratory date of service rules. Prior to 2018, CMS' 14-day rule prevented reference and independent laboratories such as ours from billing Medicare directly for clinical laboratory tests or the technical component of pathology services if, among other things, the tests were ordered less than 14 days following an outpatient's discharge from the hospital. Instead, we would seek reimbursement from the hospital and the hospital would bill Medicare. Effective January 1, 2018, certain molecular pathology tests and advanced diagnostic laboratory tests ("ADLTs") that previously had to be billed or could be billed by the hospital are now required to be billed by the performing laboratory if certain requirements are met. Since our client-bill pricing is typically higher for Molecular testing than the Medicare fee schedule, we anticipate a reduction in revenue from this policy change. Under the MolDx program there are many policies that limit reimbursement on certain tests based on diagnosis codes, and for certain tests there is no reimbursement regardless of the patient's condition.

We expect the initiatives described above to continue and, if they do, to reduce reimbursements for clinical laboratory services, to impose more stringent cost controls on clinical laboratory services and to reduce utilization of clinical laboratory services. These efforts, including changes in law or regulations that may occur in the future, may each individually or collectively have a material adverse impact on our business, results of operations, financial condition and prospects.

Changes in regulations, payer policies or contracting arrangements with payers 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 payers, as well as private insurers and private payers, 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 and federal agencies, such as CMS, have, from time to time, 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 may not use our services if third-party payers do not provide adequate coverage and reimbursement for them. These changes in federal, state, local and third-party payer regulations or policies may decrease our revenues and adversely affect our results of operations and our financial condition. We will continue to be a non-contracting provider until such time as we enter into contracts with third-party payers with whom we are not currently contracted until such time as we enter into contracts with such third-party payers. Because a portion of our revenues is from third-party payers 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.

Failure to comply with environmental, health and safety laws and regulations, including the federal Occupational Safety and Health Administration Act, and the Needlestick Safety and Prevention Act could result in fines and penalties and loss of licensure, and have a material adverse effect upon our business.

We are subject to licensing and regulation under federal, state and local laws and regulations relating to the protection of the environment and human health and safety, including laws and regulations relating to the handling, transportation and disposal of medical specimens, infectious and hazardous waste and radioactive materials, as well as regulations relating to the safety and health of laboratory employees. The federal Occupational Safety and Health Administration has established extensive requirements relating to workplace safety for health care employers, including clinical laboratories, whose workers may be exposed to blood-borne pathogens such as HIV and the hepatitis B virus. These requirements, among other things, require work practice controls, protective clothing and equipment, training, medical follow-up, vaccinations and other measures designed to minimize exposure to, and transmission of, blood-borne pathogens. In addition, the Needlestick Safety and Prevention Act requires, among other things, that we include in our safety programs the evaluation and use of engineering controls such as safety needles, if found to be effective at reducing the risk of needlestick injuries in the workplace.

Failure to comply with such federal, state and local laws and regulations could subject us to denial of the right to conduct business, fines, criminal penalties and/or other enforcement actions, any of which could have a material adverse effect on our business. In addition, compliance with future legislation could impose additional requirements for us, which may be costly.

Our net revenue will be diminished if payers 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, private payers continually seek ways to reduce and control overall healthcare costs, and increasing emphasis on managed care in the United States will continue to put pressure on the pricing of healthcare services. Uncertainty exists as to the coverage and reimbursement status of new applications and services. Third-party payers, including governmental payers such as Medicare and private payers, 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 tests or for tests we discover and develop, and a substantial portion of the testing for which we bill our hospital and laboratory clients is ultimately paid by third-party payers. Likewise, any pricing pressure exerted by these third party payers on our clients may, in turn, be exerted by our clients on us. If government and other third-party payers do not provide adequate coverage and reimbursement for our tests, it could adversely affect our operating results, cash flows and/or our financial condition.

Third party billing is extremely complicated and results in significant additional costs to us.

Billing for laboratory services is extremely complicated. Depending on the billing arrangement and applicable laws, we must bill various payers, such as patients, insurance companies, Medicare, Medicaid, physician practices, employer groups, hospitals and other laboratories, all of which have different billing requirements. Additionally, we undertake internal audits to evaluate compliance with applicable laws and regulations as well as internal compliance policies and procedures. Insurance companies and government payers such as Medicare and Medicaid also impose routine external audits to evaluate payments, which adds further complexity to the billing process.

Among others, the primary factors which complicate our billing practices are:

- pricing differences between our fee schedules and the reimbursement rates of the payers;
- changes in payer rules or contracts;
- disputes with payers as to the party who is responsible for payment;
- disparity in coverage and information requirements among various carriers; and
- differing pre-authorization requirements across payers.

We incur significant additional costs as a result of our participation in the Medicare and Medicaid programs, as billing and reimbursement for clinical laboratory services are subject to considerable and complex federal and state regulations. The additional costs we expect to incur include those related to: (i) complexity added to our billing processes and systems; (ii) training and education of our employees and clients; (iii) implementing compliance procedures and oversight; (iv) collections and legal costs; and (v) costs associated with, among other factors, challenging coverage and payment denials and providing patients with information regarding claims processing and services, such as advance 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 is ensuring compliance with federal and state laws prohibiting fraudulent billing and the retention of overpayments. In particular, if we fail to comply with federal and state documentation, coding and billing rules, we could be subject to liability under the federal False Claims Act, including civil penalties, loss of licenses and exclusion from the Medicare and Medicaid programs. The False Claims Act prohibits individuals and companies from knowingly submitting false claims for payments to, or improperly retaining overpayments from, the government.

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 $10,461 and $52,308 for each separate false claim. Further, False Claims Act liability may lead to exclusion from participation in Medicare, Medicaid and other federal healthcare programs. There are a number of potential bases for liability under the federal False Claims Act. For example, liability arises when an entity knowingly submits, or causes another to submit, a claim for reimbursement to the federal government for a service which was not provided or which did not qualify for reimbursement. Submitting a claim with reckless disregard or deliberate ignorance of its truth or falsity could also result in liability under the False Claims Act. Following enactment of the ACA, knowing retention of overpayments is also considered a false claim and could lead to liability under the False Claims Act.

The False Claims Act's "whistleblower" or "qui tam" provisions are being used with more frequency to challenge the reimbursement practices of providers and suppliers. Those provisions allow a private individual to bring an action on behalf of the government alleging that the defendant has submitted false claims for payment to the government. The government must decide whether to intervene in the lawsuit and whether to prosecute the case. If it declines to do so, the individual may 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. The successful qui tam relator who brought the case is entitled to a portion of the proceeds and his or her attorneys' fees and costs. In addition, various states have enacted laws modeled after the federal False Claims Act, which prohibit submitting false claims for payment to the state or, in some states, to other commercial payers. If we fail to comply with federal and state documentation, coding, and billing rules, we could be subject to liability under analogous state laws as well as criminal liability through a variety of federal and state criminal statutes.

Government investigations of clinical laboratories have been ongoing for a number of years and are expected to continue in the future. When we submit bills for our services to third-party payers, we must follow complex documentation, coding and billing rules which are based on federal and state laws, rules and regulations, various government publications, and on industry practice. A large number of laboratories have entered into substantial settlements with the federal and state governments for alleged noncompliance under these laws and rules. Private payers have also brought civil actions against laboratories which have resulted in substantial judgments. Failure to follow these rules could result in potential civil liability under the False Claims Act, under which extensive financial penalties can be imposed. It could further result in criminal liability under various federal and state criminal statutes. For example, there are various state and federal laws and rules regulating laboratory billing practices, such as prohibiting a clinical laboratory from charging a higher price for tests ordered by a physician and provided by a third-party (anti-markup rules) as well as requiring a laboratory performing certain laboratory tests to directly bill Medicare instead of the ordering provider (direct billing rules).

We submit thousands of claims for payment to governmental programs and private payers, and we cannot guarantee that there have not been errors in our claims. While we maintain a robust compliance program that includes consistent, detailed review of our documentation, and coding and billing practices, the rules are frequently vague, complex, and continually changing and we cannot assure that governmental authorities, private insurers or private whistleblowers will not challenge our practices. Such a challenge could result in a material adverse effect on our business.

The failure to comply with significant government regulation and laboratory operations may subject us to liability, penalties or limitation of operations.

We are subject to extensive state and federal regulatory oversight. Specifically, our laboratories must satisfy federal requirements under CLIA and to maintain the appropriate CLIA Certificate for all testing performed at the lab. Additionally, most states have adopted various laws and regulations setting standards for laboratories performing clinical laboratory testing and requiring laboratories to obtain and maintain a state laboratory license before the laboratory is authorized to perform testing. These state licensure laws address a host of requirements and often include permissible and prohibited practices involving digital health, including but not limited to telehealth and telepathology.

Upon periodic inspection or survey, our laboratory locations may be found to be non-compliant with CLIA requirements or with applicable state licensure or certification laws. The sanctions for failure to comply with CLIA, state licensure requirements, or other applicable laws and regulations could include the suspension, revocation, or limitation of the right to perform clinical laboratory services or receive compensation for those services, as well as the requirement to enter into a corrective action plan to monitor compliance, and the imposition of civil or criminal penalties or administrative fines. 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 our 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 laboratories, and their referral sources, including physicians, hospitals and other laboratories. Certain of these laws, including the federal Anti-Kickback Statutes ("AKS") and the federal physician self-referral law (the "Stark Law") contain extremely broad proscriptions. Violation of these laws may result in criminal penalties, exclusion from participation in the Medicare, Medicaid, and other federal healthcare programs, repayment of all reimbursement received by us related to services tied to any impermissible referrals, and significant civil monetary penalties, as well as False Claims Act liability. We seek to structure our arrangements with physicians and other clients to be in compliance with the federal AKS, Stark Law and similar state laws, and to keep up-to-date on developments concerning their application by various means, including consultation with legal counsel and review of the annual Work Plan by the Office of the Inspector General ("OIG") identifying targeted issues. We cannot guarantee, however, that government authorities will not take a contrary view and impose civil monetary penalties and exclude us based on our arrangements with physicians and other clients.

The federal Civil Monetary Penalties Law, ("federal CMP Law"), imposes civil monetary penalties and potential exclusion from Medicare and Medicaid programs on any person who offers or transfers remuneration to any patient who is a Medicare or Medicaid beneficiary, when the person knows or should know that the remuneration is likely to induce the patient to receive medical services from a particular provider. The federal CMP Law applies, among other things, to many kinds of inducements or benefits provided to patients, including complimentary items, services or transportation that are of more than nominal value. We have structured our operations and provision of services to patients in a manner that we believe complies with the law and its interpretation by government authorities. We cannot guarantee, however, that government authorities will not take a contrary view and impose civil monetary penalties and exclude us from participation in Medicare and Medicaid for past or present practices related to patient incentive, coordination of care and need-based programs.

Furthermore, HIPAA, the HITECH Act, (as implemented through HIPAA's privacy and security regulations) and similar state laws contain provisions that require the electronic exchange of health information, such as claims submission and receipt of remittances, using standard transactions and code sets, which we refer to as "Standards", and regulate the use and disclosure of

patient records and other PHI. These provisions, which address security and confidentiality of patient information as well as the administrative aspects of claims handling, have very broad applicability and govern many healthcare providers, including physicians and clinical laboratories. Although we believe we are in material compliance with the Standards, the HIPAA privacy and security regulations, and applicable state privacy and security laws, a failure to comply with these laws could have a material adverse effect on our business, results of operations and our financial condition and could subject us to liability. Additionally, while there is no private right of action under HIPAA, state Attorneys General may bring an action against a covered entity, such as us, for a violation of HIPAA, and the federal Office for Civil Rights can impose fines and penalties.

The failure to comply with physician self-referral laws may subject us to liability, penalties or limitation of operations.

We are subject to the federal Stark Law, as well as similar state statutes and regulations, which prohibit billing Medicare for certain health care services, which are referred to as designated health services ("DHS"), rendered as a result of referrals by physicians to DHS entities with which the physicians (or their immediate family members) have a financial relationship unless an exception is met. A "financial relationship" includes both an ownership interest and/or a compensation arrangement with a physician, both direct and indirect, and DHS includes, but is not limited to, laboratory services. The Stark Law prohibits an entity that receives a prohibited DHS referral from seeking payment from Medicare for any DHS services performed as a result of such a referral, unless an arrangement is carefully structured to satisfy every requirement of a regulatory exception. The Stark Law is a strict liability statute, and thus any technical violation requires repayment of all "tainted" referrals, regardless of the intent, unless an exception applies. Penalties for violating the Stark Law may include the denial of payment to an entity for the impermissible provision of DHS, the requirement to refund any amounts collected in violation of the Stark Law, and civil monetary penalties of up to $25,372 for each violation and $169,153 for each circumvention arrangement or scheme. The amounts may be further increased by civil monetary penalty increases imposed by the Bipartisan Budget Act of 2018. Other implications of a Stark Law violation may include exclusion from Medicare and Medicaid programs, and potential False Claims Act liability, including via "qui tam" action.

Further, many states have promulgated self-referral laws and regulations similar to the federal Stark Law, but these vary significantly based on the state. In addition to services reimbursed by Medicaid or government payers, often these state laws and regulations can encompass services reimbursed by private payers and self-pay patients as well. Penalties for violating state self-referral laws and regulations vary based on the state, but often include civil penalties, exclusion from Medicaid, and loss of licenses.

Our financial arrangements with physicians are governed by the federal Stark Law, and we rely on certain exceptions to the Stark Law with respect to such relationships. While we believe that our financial relationships with physicians and physician practices are in compliance with applicable laws and regulations, we cannot guarantee that government authorities would agree. If we are found by the government to be in violation of the Stark Law, we could be subject to significant penalties, including fines as specified above, exclusion from participation in government and private payer programs and requirements to refund amounts previously received from government. Further, as our operations expand into new states and jurisdictions, we must continually evaluate whether our relationships with physicians comply with that jurisdiction's laws. This may require structural and organizational modifications to our relationships with physicians which could adversely affect our results of operations and financial condition.

The failure to comply with Anti-Kickback laws may subject us to liability, penalties or limitation of operations

We are subject to the federal AKS, which prohibits the offer, payment, solicitation or receipt of any form of remuneration in return for referring, ordering, leasing, purchasing or arranging for or recommending the ordering, purchasing or leasing of items or services payable by Medicare, Medicaid or any other federally funded healthcare program. The AKS defines remuneration to include anything of value, in cash or in kind, and thus can implicate financial relationships involving payments not commensurate with fair market value, such as in the form of space, equipment leases, professional or technical services or anything else of value.

The AKS is an "intent-based" statute, meaning that a violation occurs when one or both parties intend the remuneration to be in exchange for or to induce referrals. In 2010, the ACA, amended the intent requirement of the AKS. A person or entity no longer needs to have actual knowledge of the statute or specific intent to violate it. In addition, the ACA provides that a claim submitted for reimbursement for items or services resulting from a violation of the AKS constitutes a false or fraudulent claim for purposes of the federal False Claims Act.

There are a number of statutory exceptions and regulatory safe harbors protecting certain common activities from prosecution or other regulatory sanctions; however, the exceptions and safe harbors are drawn narrowly, and practices that do not fit squarely within an exception or safe harbor may be subject to scrutiny. Violations of the AKS may result in substantial civil or criminal penalties, including criminal fines of up to $102,522, imprisonment of up to ten years, civil penalties under the federal CMP Law of up to $102,522 for each violation, plus three times the remuneration involved, civil penalties under the federal False Claims Act of a maximum of $52,308 for each claim submitted, plus three times the amounts paid for such claims and

exclusion from participation in the Medicare and Medicaid programs. If we face these penalties or exclusion from participation in Medicare and Medicaid, it could significantly reduce our revenues and could have a material adverse effect on our business.

Further, most states have adopted similar anti-kickback laws prohibiting the offer, payment, solicitation or receipt of remuneration in exchange for referrals, and typically impose criminal and civil penalties as well as loss of licenses. Some of these state laws apply to items and services paid for by private payers as well as by government payers. In addition, many states have adopted laws prohibiting the splitting or sharing of fees between physicians and non-physicians, as well as between treating physicians and referral sources. We believe our arrangements with physicians comply with the AKS, and state anti-kickback and fee splitting laws of the states in which we operate, however, if government authorities were to disagree, we could be subject to civil and criminal penalties, and be required to restructure or terminate our contractual and other arrangements with physicians. This could result in a loss of revenue and have a material adverse effect on our business.

Some states have also adopted laws prohibiting the corporate practice of medicine, or prohibiting business corporations from employing physicians or engaging in activities considered to be the "practice of medicine." In these states, we rely on service agreements with physicians and/or professional associations owned by physicians, to perform needed professional pathology services. We cannot assure you that a physician or physician's professional organization will not seek to terminate an agreement with us on any basis, nor can we assure you that governmental authorities in those states will not seek termination of these arrangements on the basis of state laws prohibiting the corporate practice of medicine.

A failure to comply with governmental payer regulations could result in our being excluded from participation in Medicare, Medicaid or other governmental payer programs.

Tests which are reimbursed by Medicare and other Government payers (for example, State Medicaid programs) accounted for approximately 17%, 18% and 15% of our revenues for the years ended December 31, 2020, 2019 and 2018, respectively. The Medicare program imposes extensive and detailed requirements on diagnostic service providers, including, but not limited to, rules that govern how we structure our relationships with physicians, how and when we submit claims for reimbursement and how we provide specialized diagnostic laboratory services. Further, we are prohibited from contracting with any individuals or entities who have been excluded from participation in Medicare or Medicaid and are listed on the OIG's List of Excluded Individuals and Entities List ("LEIE") or in the System for Award Management, which includes the previously independent Government Services Administration's Excluded Parties List System ("GSA-EPLS"). Contracting with excluded individuals or entities, such as hiring an excluded person or contracting with an excluded vendor, can result in significant penalties.

Our failure to comply with applicable Medicare, Medicaid and other governmental payer rules could result in our inability to participate in a governmental payer program, an obligation to repay funds already paid to us for services performed, civil monetary penalties, criminal penalties, False Claims Act liability and/or limitations on the operational function of our laboratory. If we were unable to receive reimbursement under a governmental payer program, a substantial portion of our revenues would be lost, which would adversely affect our results of operations and financial condition.

Failure to comply with the HIPAA Privacy, Security and Breach Notification Regulations may increase our operational costs.

The HIPAA privacy and security regulations establish comprehensive federal standards with respect to the uses and disclosures of PHI by certain entities including health plans and health care providers, and set standards to protect the confidentiality, integrity and availability of electronic medical records. The regulations establish a complex regulatory framework governing the use and disclosure of PHI, including, for example, the circumstances under which uses and disclosures of PHI are permitted or required without a specific authorization by the patient; a patient's right to access, amend and receive an accounting of certain disclosures of PHI; the content of notices of privacy practices describing how PHI is used and disclosed and individuals' rights with respect to their PHI; and implementation of administrative, technical and physical safeguards to protect privacy and security of PHI. The federal privacy regulations restrict our ability to use or disclose certain individually identifiable patient health information, without patient authorization, for purposes other than payment, treatment or health care operations (as defined by HIPAA), except for disclosures for various public policy purposes and other permitted purposes outlined in the privacy regulations. The HIPAA privacy and security regulations do not supersede state laws that may be more stringent; therefore, we are required to comply with both federal privacy and security regulations and varying state privacy and security laws and regulations.

The HIPAA privacy and security regulations also require healthcare providers like us to notify affected individuals, the Secretary of the U.S. Department of Health and Human Services, and in some cases, the media, when PHI has been "breached", as defined by HIPAA. Many states have similar breach notification laws. In the event of a breach, we could incur substantial operational and financial costs related to mitigation and remediation, including preparation and delivery of notices to affected individuals. Additionally, HIPAA, and its implementing regulations provide for significant civil fines, criminal penalties, and other sanctions for failure to comply with the privacy, security, and breach notification rules, including for wrongful or impermissible use or disclosure of PHI. Although the HIPAA statute and regulations do not expressly provide for a private right of action for damages, we could incur damages under state laws to private parties for the wrongful or impermissible use or

disclosure of confidential health information or other private personal information. Additionally, HIPAA allows state Attorneys General to bring an action against a covered entity, such as us, for a violation of HIPAA. We insure some of our risk with respect to HIPAA security breaches, but operational costs and penalties associated with HIPAA breaches easily could exceed our insured limits.

We are subject to security risks which could harm our operations.

HIPAA imposes additional requirements, restrictions and penalties on covered entities and their business associates to, among other things, deter breaches of security. As a result, required preventative and remedial actions, along with the aforementioned reporting requirements, and sanctions for a breach are stringent. Our electronic health records system is periodically modified to meet applicable security standards. Despite the implementation of various security measures by us, our infrastructure may be vulnerable to computer viruses, break-ins and other disruptive problems inadvertently introduced by authorized users such as employees and clients, or purposefully targeted by hackers and other cybercriminals which could lead to interruption, delays or cessation in service to our clients. Further, such incidents, whether electronic or physical, could jeopardize the security of confidential information, including PHI and other sensitive information stored in our computer systems related to clients, patients, and other parties connected through us, which may deter potential clients and give rise to uncertain liability to parties whose security or privacy has been infringed. A significant security breach could result in fines, loss of clients, damage to our reputation, direct damages, costs of repair and detection, costs to remedy the breach, government penalties, and other expenses. We insure some of our risk with respect to security breaches but the occurrence of any of the foregoing events could have a material adverse effect on our business, results of operations and our financial condition.

General Risk Factors

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. The loss of the services of any of our executive officers, our medical staff, our laboratory directors 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 managerial and technical personnel, as we grow. 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 managerial and technical personnel in the future. The inability to attract and retain the necessary managerial and technical personnel could have a material adverse effect upon our business, results of operations and financial condition.

Additionally, our ability to retain existing clients for our specialized diagnostic services and attract new clients is dependent upon retaining existing sales representatives and hiring and training 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 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 client 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 clients may choose to use a competitor’s services based on their relationship with our former sales representative.

Further, non-compliant activities and unlawful conduct by sales and marketing personnel could give rise to significant risks under the AKS. We require extensive, comprehensive training of all sales and marketing personnel, but cannot guarantee that every staff member will comply with the training. Thus, in addition to the cost of training sales and marketing personnel, we could face liability under the AKS for non-compliance by individuals engaged in prohibited sales and marketing activities.

Our business operations and reputation may be materially impaired if we do not comply with privacy laws or information security policies.

In our business, we collect, generate, process or maintain sensitive information, such as patient data and other personal information. If we do use or not adequately safeguard that information in compliance with applicable requirements under federal, state and international laws, or if it were disclosed to persons or entities that should not have access to it, our business could be materially impaired, our reputation could suffer and we could be subject to fines, penalties and litigation. In the event of a data security breach, we may be subject to notification obligations, litigation and governmental investigation or sanctions, and may suffer reputational damage, which could have an adverse impact on our business.

We are subject to laws and regulations regarding protecting the security and privacy of certain healthcare and personal information, including: (a) the federal Health Insurance Portability and Accountability Act and the regulations thereunder, which establish (i) a complex regulatory framework including requirements for safeguarding protected health information and (ii) comprehensive federal standards regarding the uses and disclosures of protected health information; (b) state laws, including the California Consumer Privacy Act; and (c) the European Union's General Data Protection Regulation.

We may not be able to implement our business strategy, 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 clients; (ii) effectively provide acceptable products and services to our clients; (iii) develop and license new products and technologies; (iv) obtain adequate financing on favorable terms to fund our business strategies; (v) maintain appropriate internal procedures, policies, and systems; (vi) hire, train, and retain skilled employees and management; (vii) continue to operate despite competition in the medical laboratory industry; (viii) be paid reasonable fees by government payer's that will adequately cover our costs; (ix) establish, develop and maintain our name recognition; and (x) establish and maintain beneficial relationships with third-party insurance providers and other third-party payers. 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.

If we are unable to successfully integrate future acquisitions with our legacy business, the anticipated benefits of such transaction may not be realized.

Acquisitions require us to devote significant management attention and resources to integrating the acquired company's business practices and operations with our own. Potential difficulties we may encounter as part of the integration process, all of which could materially and adversely affect our business, financial condition, results of operations, and cash flows, include the following:

- the potential inability to successfully combine the acquired company's business with our legacy business in a manner that permits us to achieve the cost synergies expected to be achieved when expected, or at all, and other benefits anticipated to result from such transaction;
- challenges optimizing the customer information and technology of the two companies, including the goal of consolidating to one laboratory information system and one billing system;
- challenges effectuating any diversification strategy, including challenges achieving revenue growth from sales of each company's products and services to the customers of the other company;
- difficulties offering products and services across our expanded portfolio;
- the need to revisit assumptions about reserves, revenues, capital expenditures, and operating costs, including expected synergies;
- challenges faced by a potential diversion of the attention of our management as a result of the integration, which in turn could adversely affect our ability to maintain relationships with customers, employees and other constituencies or our ability to achieve the anticipated benefits of such transaction;
- the potential loss of key employees, customers, managed care contracts or strategic partners, or the ability to attract or retain key management and other key personnel, which could have an adverse effect on our ability to integrate and operate the acquired business;
- complexities associated with managing the combined businesses, including difficulty addressing possible differences in corporate cultures and management philosophies and the challenge of integrating complex systems, technology, networks and other assets of each of the companies in a seamless manner that minimizes any adverse impact on customers, suppliers, employees and other constituencies;
- costs and challenges related to the integration of the acquired company's internal controls over financial reporting with ours; and
- potential unknown liabilities and unforeseen increased expenses.

We cannot be assured that all of the goals and anticipated benefits of an acquisition will be achievable, particularly as the achievement of the benefits are in many important respects subject to factors that we do not control. These factors would include such things as the reactions of third parties with whom we enter into contracts and to business and the reactions of investors and analysts.

If we cannot integrate our legacy business with any future business we may acquire successfully, we may fail to realize the expected benefits of such transaction, including the anticipated cost synergies. We could also encounter additional transaction and integration costs or be subject to other factors that affect preliminary estimates.

We may incur greater costs than anticipated, which could result in sustained losses.

We use reasonable efforts to assess and predict the expenses necessary to pursue our business strategies. However, implementing our business strategies may require more employees, capital equipment, supplies or other expenditure items than management has predicted, particularly as we continue to assess any further needs resulting from the growth our Pharma division. Similarly, the cost of compensating additional management, employees and consultants or other operating costs may be more than we estimate, which could result in ongoing and sustained losses.

We may face fluctuations in our results of operations and we are subject to seasonality in our business which could negatively affect our business operations.

Management expects that our results of operations may 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 any 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 likely 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 effect on our business, results of operations and financial condition and may not result in the long-term benefits intended. Furthermore, in Florida, historically our largest referral market for laboratory testing services, a meaningful percentage of the population, returns to homes in the Northern United States to avoid the hot summer months. This combined with the usual summer vacation schedules of our clients usually results in seasonality in our business. Because of all of the foregoing factors, our operating results in future periods could be less than the expectations of investors.

The steps we have taken to protect our 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, clients, 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.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

We operate an international network of laboratories. Our corporate office and most of our laboratory facilities are leased except we own 43,560 square feet of our Carlsbad, California facility. These leases expire at various dates through 2035. We believe that these locations are sufficient to meet our needs at existing volume levels and that, if needed, additional space will be available at a reasonable cost.

The following table summarizes our facilities by type and location:

Location	Purpose	Square Footage
Aliso Viejo, California	Laboratory and administrative offices	131,216
Carlsbad, California	Laboratory and administrative offices	105,178
Fort Myers, Florida	Corporate headquarters and laboratory	73,689
Houston, Texas	Laboratory	32,757
La Jolla, California	Laboratory	14,672
Geneva (Rolle), Switzerland	Laboratory	7,976
Nashville, Tennessee	Laboratory	7,806
Tampa, Florida	Laboratory	5,574
Singapore	Laboratory	3,957
Suzhou, China	Laboratory	3,444
Atlanta, Georgia	Laboratory	1,190
Plantation, Florida	Courier office	240

Our La Jolla, California, Rolle, Switzerland and Singapore laboratories support our Pharma Services segment exclusively. In December 2020, we took possession of the Suzhou, China location. This laboratory will support the Pharma Services segment and we expect it to be fully functional in 2021. Our Nashville, Tennessee, Tampa, Florida and Atlanta, Georgia locations support our Clinical Services segment exclusively. All other locations serve both segments of the business. See Note 20. Segment Information, to our Consolidated Financial Statements for further financial information about our segments.

ITEM 3. LEGAL PROCEEDINGS

From time to time the Company is engaged in legal proceedings that arise in the ordinary course of business. The Company believes that any resulting liability from these proceedings will not, either individually or in the aggregate, have a material adverse effect on our consolidated financial position, results of operations, or cash flows.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR THE REGISTRANTS COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information

Our common stock is listed on the NASDAQ Capital Market under the symbol “NEO”.

Holders of Common Stock

As of February 22, 2021, there were 665 stockholders of record of our common stock. The number of record holders does not include beneficial owners of common stock whose shares are held in the names of banks, brokers, nominees or other fiduciaries.

Dividends

We have never declared or paid cash dividends on our common stock. We intend to retain all future earnings to finance operations and future growth and, therefore, we do not anticipate paying any cash dividends in the foreseeable future. Our financing arrangements contain certain restrictions on our ability to pay dividends on our common stock.

Equity Compensation Plan Information

The following table summarizes the securities authorized for issuance under equity compensation plans as of December 31, 2020:

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans	
Equity compensation plans approved by security holders:				
Amended and Restated Equity Incentive Plan (“Equity Incentive Plan”)	3,785,941	$ 15.21	1,022,401	(a)
Employee Stock Purchase Plan (“ESPP”)	—	N/A	236,651	(b)
Total	3,785,941	$ 15.21	1,259,052	

a. The Company’s Equity Incentive Plan was amended, restated and subsequently approved by a majority of shareholders on December 21, 2015 and amended and subsequently approved by a majority of shareholders on May 25, 2017. The most recent amendment increased the maximum aggregate number of shares of the Company’s common stock reserved and available for issuance under the Amended Plan to 18,650,000.

b. The Company’s Employee Stock Purchase Plan was amended, restated and subsequently approved by a majority of shareholders on June 6, 2013 and amended and subsequently approved by a majority of shareholders on May 25, 2017 and June 1, 2018. The most recent amendment increased the maximum aggregate number of shares reserved and available for issuance under the Plan to 1,500,000.

Currently, the Company’s Equity Incentive Plan, as amended on May 25, 2017 and the Company’s ESPP, as amended on June 1, 2018, are the only equity compensation plans in effect.

Recent Sales of Unregistered Securities

None.

Issuer Purchases of Equity Securities

The following table sets forth information concerning our purchases of common stock for the periods indicated:

Period of Repurchase	Total Number of Shares Purchased (a)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs
October 1, 2020 - October 31, 2020	42	$ 40.80	—	—
November 1, 2020 - November 30, 2020	8	44.74	—	—
December 1, 2020 - December 31, 2020	—	—	—	—
Total	50	$ 41.43	—	—

a. The Company's Equity Incentive Plan, as amended on May 25, 2017, allows participants to surrender already-owned shares having a fair market value equal to the required withholding tax related to the vesting of restricted stock. Pursuant to a share withholding election made by participants in connection with the vesting of such awards, all of which were outside of a publicly-announced repurchase plan, we acquired from such participants the shares noted in the table above to satisfy tax withholding obligations related to the vesting of their restricted stock. The average prices listed in the above table are averages of the fair market prices at which we valued shares withheld for purposes of calculating the number of shares to be withheld.

Comparison of Cumulative Five Year Total Return

We have presented below the cumulative total return to our stockholders of $100 during the period from December 31, 2015, through December 31, 2020 in comparison to the cumulative return on the S&P 500 Index and a customized peer group of five publicly traded companies during that same period. The peer group is made up of Invitae Corporation, Exact Sciences Corporation, Laboratory Corporation of America Holdings, Natera, Inc., and Quest Diagnostics, Inc. Several of our closest competitors are part of large pharmaceutical or other multi-national firms, or are privately held and, as such, we are unable to obtain financial information for them.

The results assume that $100 (with reinvestment of all dividends) was invested in our common stock, the index and in the peer group and its relative performance tracked through December 31, 2020. The comparisons are based on historical data and are not indicative of, nor intended to forecast, the future performance of our common stock. The performance graph set forth above shall not be deemed incorporated by reference into any filing by us under the Securities Act or the Exchange Act except to the extent that we specifically incorporate such information by reference therein.

ITEM 6. SELECTED FINANCIAL DATA

Omitted as not required pursuant to amendments to Item 301 of Regulation S-K effective February 10, 2021.

ITEM 7. 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 in this Annual Report on Form 10-K. The information contained below includes statements of management's beliefs, expectations, hopes, goals and plans that, if not historical, are forward-looking statements subject to certain risks and uncertainties that could cause actual results to differ materially from those anticipated in the forward-looking statements. For a discussion on forward-looking statements, see the information set forth in the introductory note to this Annual Report under the caption "Forward Looking Statements", which information is incorporated herein by reference. For discussion and analysis pertaining to 2019 overview and highlights as compared to 2018, please refer to the Company's Annual Report on Form 10-K, filed with the Securities and Exchange Commission ("SEC") on February 28, 2020.

Our Company

NeoGenomics, Inc. is a high-complexity CLIA-certified clinical laboratory that specializes in cancer genetics diagnostic testing and pharma services. Our testing services include cytogenetics, fluorescence in-situ hybridization ("FISH"), flow cytometry, immunohistochemistry, anatomic pathology and molecular genetic testing. Headquartered in Fort Myers, FL, NeoGenomics operates CAP accredited and CLIA certified laboratories in Fort Myers and Tampa, Florida; Aliso Viejo, Carlsbad and San Diego, California; Houston, Texas; Atlanta, Georgia; Nashville, Tennessee; and CAP accredited laboratories in Rolle, Switzerland, and Singapore. NeoGenomics serves the needs of pathologists, oncologists, academic centers, hospital systems, pharmaceutical firms, integrated service delivery networks, and managed care organizations throughout the United States, and pharmaceutical firms in Europe and Asia.

2020 Overview and Highlights

- We increased revenues by 9% compared to 2019, including an increase in Clinical Services revenue of 6% and an increase in Pharma Services revenue of 30%;
- Pharma Services backlog increased to $209 million;
- Financial position strengthened with $322 million net convertible note and equity offerings;
- We acquired the Oncology Division assets of Human Longevity, Inc. ("HLI - Oncology");
- Strategic collaboration and minority investment in Inivata Limited ("Inivata") established;
- Expanding testing menu to include suite of liquid biopsy tests; and
- High-capacity COVID-19 testing lab operationalized.

Company Outlook

Advances in science and technology are driving a proliferation of oncology therapies and associated diagnostic tests. These diagnostic tools and therapies are increasing survival and enhancing quality-of-life for cancer patients. As a leading global oncology diagnostics company serving biopharmaceutical companies as well as practicing oncologists and pathologists, NeoGenomics facilitates the adoption of these advanced oncology diagnostic tools beyond the academic environment into the community setting. We are continuously enhancing and expanding our test menu to ensure that providers and patients have access to leading edge solutions such as advanced molecular testing and state-of-the art digital pathology. Moreover, our team of MDs and PhDs, along with our highly-trained oncology-focused sales team provide continuous education to our clients to ensure that they remain abreast of cutting-edge developments in oncology.

We are a leading provider of oncology-diagnostic services to biopharma companies. We will continue to work with these clients across the drug development continuum, from research and development, through clinical trials testing, to commercialization of companion diagnostic tests. We are growing our Pharma Services business through global expansion in both Europe and Asia, expansion of our test offering, including leading edge next-generation-sequencing tools, and unique capabilities for developing and commercializing companion diagnostic tests.

We are continuing to develop and broaden our informatics and data-related tools to leverage our unique market position and oncology expertise to help our stakeholders solve real-world problems such as identifying patients for clinical trials or providing clinical decision support tools for physicians and providers. We are committed to connecting patients with life altering therapies and trials. In carrying out these commitments, NeoGenomics aims to provide transparency and choice to patients regarding the handling and use of their data through our Notice of Privacy Practices, and has invested in leading technologies to ensure the data we maintain is secured at all times.

We believe lower cost and increased value of testing is extremely important to the healthcare industry and creates a competitive advantage for our company. We will invest in information technology, automation and best practices to continually improve our processes and drive down the cost of testing. We will continue to expand our test menu and remain at the forefront of the ongoing revolution in cancer related genetic and molecular testing to achieve our vision of becoming the world's leading cancer testing and information company.

We continue to develop our company-wide focus, which includes the following three critical success factors for 2021:

- **World-Class Culture:** To strengthen our world-class culture through continued training and development, programs to promote wellness and work-life balance, and enhanced communication. We are focused on our commitment to inclusion, meaningful work experiences, empowering and developing our people and teams, and managing with empathy.
- **Uncompromising Quality and Exceptional Service:** To provide uncompromising quality and exceptional service, with a focus on industry leading turn-around time, automation and process control, and advancing our culture of quality. We will further automate our laboratory operations to enhance quality, reduce cost, and improve turn-around time. We have established rigorous turn-around time objectives for each test modality based on customer feedback and industry benchmarks. Our goal is to ultimately achieve industry leading turn-around-time for each modality. Our laboratory teams will focus on quality by improving the Corrective and Preventative Actions ("CAPA") process and streamlining and simplifying processes.
- **Innovation and Growth:** To pursue exceptional service and growth through the launch of innovative assays, informatics products and companion diagnostics as well as enhanced educational programs. To support this objective we will invest in research and development activities with a focus on expanding and enhancing our capabilities for next-generation sequencing, including liquid biopsy, and expanding our companion diagnostic offering. Our informatics and data-related tools leverage our unique market position and oncology expertise to help our stakeholders solve real-world problems. We will continue to pursue market share gains in both our Clinical Services and Pharma Services segments.

These critical success factors have been communicated throughout our Company. We have structured departmental goals around these factors and have created employee incentive plans in which every employee will have a meaningful incentive for our success.

Regulatory Environment

The FDA is currently considering changes which may include increased regulation of Laboratory Developed Tests ("LDTs") by the FDA. In October 2014, the FDA announced its proposed framework and timetable and indicated it would move toward greater oversight of LDTs. The FDA has not finalized the framework they announced in 2014. In 2017, the FDA shifted its approach to oversight of LDTs, indicating that they would work with Congress and stakeholders on a new legislative framework and pathway for all diagnostic testing. In 2018, the FDA began limited enforcement activities on a subset of LDTs known as pharmacogenetic testing ("PGx"). NeoGenomics is a member of the American Clinical Laboratory Association ("ACLA"), which has been in active discussions with the FDA and Congress regarding FDA oversight of LDT's. However, in August 2020, HHS, in an unsigned statement posted on its website and not published in the Federal Register, barred FDA from requiring premarket review for any LDT, including those for COVID-19, unless FDA goes through formal rulemaking procedures. At this time we cannot predict what the current administration impact will be on the oversight and regulation of LDTs or if there will be any additional changes to current rules and regulations.

We closely monitor changes in legislation and take specific actions to identify and estimate the impact of changes in legislation whenever possible as regulatory changes can affect reimbursement for clinical laboratory services. We do not anticipate significant changes to our clinical revenue in 2021 based on known changes in legislation.

Operating Segments

We report our activities in two operating segments: the Clinical Services Segment and the Pharma Services Segment. We have presented the financial information reviewed by the Chief Operating Decision Maker ("CODM") including revenues, cost of revenue and gross margin for each of our operating segments. Assets are not presented at the segment level as that information is not used by the CODM.

Clinical Services

The clinical cancer testing services we offer to community-based pathologists are designed to be a natural extension of, and complementary to, the services that they perform within their own practices. We believe our relationship as a non-competitive partner to community-based pathology practices, hospital pathology labs and academic centers empowers them to expand their

breadth of testing and provide a menu of services that matches or exceeds the level of service found in any center of excellence around the world. Community-based pathology practices and hospital pathology labs may order certain testing services on a technical component only ("TC" or "tech-only") basis, which allows them to participate in the diagnostic process by performing the professional component ("PC") interpretation services without having to hire laboratory technologists or purchase the sophisticated equipment needed to perform the technical component of the tests. We also support our pathology clients with interpretation and consultative services using our own specialized team of pathologists for difficult or complex cases and provide overflow interpretation services when requested by clients.

NeoGenomics is a leading provider of Molecular and next-generation sequencing ("NGS") testing. These tests are interpreted by NeoGenomics' team of Molecular experts and are often ordered in conjunction with other testing modalities. NGS panels are one of our fastest growing testing areas and clients can often receive a significant amount of biomarker information from very limited samples. These comprehensive panels can allow for faster treatment decisions for patients as compared to a series of single-gene molecular tests being ordered sequentially. We believe that NeoGenomics has one of the broadest Molecular menus in the industry and our targeted NeoTYPE panels include genes relevant to a particular cancer type, as well as other complementary tests such as immunohistochemistry and FISH. This comprehensive menu means that NeoGenomics can be a "one-stop shop" for our clients who can get all of their oncology testing needs satisfied by our laboratory. This is attractive to our clients as patient samples do not need to be split and then managed across several laboratories. NeoGenomics expects our Molecular laboratory and NGS capabilities to be a key growth driver in the coming years.

In addition, we directly serve oncology, dermatology and other clinician practices that prefer to have a direct relationship with a laboratory for cancer-related genetic testing services. We typically service these types of clients with a comprehensive service offering where we perform both the technical and professional components of the tests ordered. In certain instances, larger clinician practices have begun to internalize pathology interpretation services, and our tech-only service offering allows these larger clinician practices to also participate in the diagnostic process by performing the PC interpretation services on TC testing performed by NeoGenomics. In these instances, NeoGenomics will typically provide all of the more complex, molecular testing services.

Pharma Services

Our Pharma Services revenue consists of three revenue streams:

- Clinical trials and research;
- Validation laboratory services; and
- Informatics

Our Pharma Services segment supports pharmaceutical firms in their drug development programs by supporting various clinical trials and research. This portion of our business often involves working with the pharmaceutical firms (sponsors) on study design as well as performing the required testing. Our medical team often advises the sponsor and works closely with them as specimens are received from the enrolled sites. We also work on developing tests that will be used as part of a companion diagnostic to determine patients' response to a particular drug. As studies unfold, our clinical trials team reports the data and often provides key analysis and insights back to the sponsors.

Our Pharma Services segment provides comprehensive testing services in support of our pharmaceutical clients' oncology programs from discovery to commercialization. In biomarker discovery, our aim is to help our customers discover the right content. We help our customers develop a biomarker hypothesis by recommending an optimal platform for molecular screening and backing our discovery tools with the informatics to capture meaningful data. In other pre-clinical and non-clinical work, we can use our platforms to characterize markers of interest. Moving from discovery to development, we help our customers refine their biomarker strategy and, if applicable, develop a companion diagnostic pathway using the optimal technology for large-scale clinical trial testing.

Whether serving as the single contract research organization or partnering with one, our Pharma Services team provides significant technical expertise, working closely with our customers to support each stage of clinical trial development. Each trial we support comes with rapid turnaround time, dedicated project management and quality assurance oversight. We have experience in supporting submissions to the Federal Drug Administration ("FDA") for companion diagnostics. Our Pharma Services strategy is focused on helping bring more effective oncology treatments to market through providing world-class laboratory services in oncology to key pharmaceutical companies in the industry.

We believe that NeoGenomics is uniquely positioned to service Pharma sponsors across the full continuum of the drug development process. Our Pharma Services team can work with them during the basic research and development phase as compounds come out of translational research departments as well as work with clients from Phase I clinical trials through Phases II and III as the sponsors work to prove the efficacy of their drugs. The laboratory biomarker tests that are developed during this process may become companion diagnostic, or CDx tests, that will be used on patients to determine if they could respond to a certain therapy. NeoGenomics is able to offer these CDx tests to the market immediately after FDA approval as

part of our Day 1 readiness program. This ability helps to speed the commercialization of their drug and enables Pharma sponsors to reach patients through NeoGenomics broad distribution channel in the Clinical Services segment.

We are continuing to develop and broaden our informatics and data-related tools to leverage our unique market position and oncology expertise to help our stakeholders solve real-world problems such as identifying patients for clinical trials or providing clinical decision support tools for physicians and providers. We are committed to connecting patients with life altering therapies and trials. In carrying out these commitments, NeoGenomics aims to provide transparency and choice to patients regarding the handling and use of their data through our Notice of Privacy Practices, and has invested in leading technologies to ensure the data we maintain is secured at all times.

Critical Accounting Policies

The preparation of financial statements in conformity with United States generally accepted accounting principles ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Our management routinely makes judgments and estimates about the effects of matters that are inherently uncertain. See Note 2. Summary of Significant Accounting Policies, to our Consolidated Financial Statements for a complete description of our significant accounting policies.

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

- Revenue Recognition
- Accounts Receivable
- Stock Based Compensation
- Deferred Taxes

Revenue Recognition

We adopted Accounting Standards Codification ("ASC") 606, *Revenues from Contracts with Customers*, on January 1, 2018 using a full retrospective method of adoption. Under this method, we have restated our results for each prior reporting period presented as if ASC 606 had been effective for those periods. The adoption of this standard required us to implement new revenue policies, procedures and internal controls related to revenue recognition. In addition, the adoption resulted in enhanced financial statement disclosures surrounding the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

The new standard impacted each of our two reportable segments differently due to the transactional nature of the Clinical Services segment versus the generally long-term nature of our Pharma Services segment contracts. The specific effect on our reportable segments is explained further in Note 2. Summary of Significant Accounting Policies, to our Consolidated Financial Statements.

Clinical Services Revenue

Our specialized diagnostic services are performed based on an online test order or a written test requisition form. The performance obligation is satisfied and revenues are recognized once the diagnostic services have been performed and the results have been delivered to the ordering physician. These diagnostic services are billed to various payers, including client direct billing, commercial insurance, Medicare and other government payers, and patients. Revenue is recorded for all payers based on the amount expected to be collected, which considers implicit price concessions. Implicit price concessions represent differences between amounts billed and the estimated consideration we expect to receive based on negotiated discounts, historical collection experience and other anticipated adjustments, including anticipated payer denials. Collection of consideration we expect to receive typically occurs within 30 to 60 days of billing for commercial insurance, Medicare and other governmental and self-pay payers and within 60 to 90 days of billing for client payers.

The following table reflects our estimate of the breakdown of net clinical revenue by type of payer for the fiscal years ended December 31, 2020, 2019, and 2018:

	2020	2019	2018
Client direct billing	63 %	59 %	68 %
Commercial insurance	20 %	23 %	17 %
Medicare and other government	17 %	18 %	15 %
Total	100 %	100 %	100 %

The change in payer mix during the year ended December 31, 2020 is primarily due to client direct billing related to COVID-19 PCR testing revenue.

Pharma Services Revenue

All of our Pharma Services revenue is billed directly to clients, or the pharmaceutical sponsor. Our Pharma Services segment generally enters into contracts with pharmaceutical and biotech customers as well as other Contract Research Organizations ("CROs") to provide research and clinical trial services ranging in duration from one month to several years. We record revenue on a unit-of-service basis based on number of units completed and the total expected contract value. The total expected contract value is estimated based on historical experience of total contracted units compared to realized units as well as known factors on a specific contract-by-contract basis. Certain contracts include upfront fees, final settlement amounts or billing milestones that may not align with the completion of performance obligations. The value of these upfront fees or final settlement amounts is usually recognized over time based on the number of units completed, which aligns with our progress towards fulfilling our obligations under the contract. We also enter into other contracts, such as validation studies, for which the sole deliverable is a final report that is sent to sponsors at the completion of contracted activities. For these contracts, revenue is recognized at a point in time upon delivery of the final report to the sponsor. Any contracts that contain multiple performance obligations and include both units-of-service and point in time deliverables are accounted for as separate performance obligations and revenue is recognized as previously disclosed. We negotiate billing schedules and payment terms on a contract-by-contract basis. While the contract terms generally provide for payments based on a unit-of-service arrangement, the billing schedules, payment terms and related cash payments may not align with the performance of services and, as such, may not correspond to revenue recognized in any given period.

Amounts collected in advance of services being provided are deferred as contract liabilities on the balance sheet. The associated revenue is recognized and the contract liability is reduced as the contracted services are subsequently performed. Contract assets are established for revenue that has been recognized but not yet billed. These contract assets are reduced once the customer is invoiced and a corresponding account receivable is recorded. Additionally, certain costs to obtain contracts, primarily for sales commissions, are capitalized when incurred and are amortized over the term of the contract. Amounts capitalized for contracts with an initial contract term of twelve months or less are classified as current assets and all others are classified as non-current assets.

Most contracts are terminable by the customer, either immediately or according to advance notice terms specified within the contracts. All contracts require payment of fees for services rendered through the date of termination and may require payment for subsequent services necessary to conclude the study or close out the contract.

Trade Accounts Receivable

Accounts receivable are reported for all clinical services payers based on the amount expected to be collected, which considers implicit price concessions.

For Pharma Services, we negotiate billing schedules and payment terms on a contract-by-contract basis which often includes payments based on certain milestones being achieved. Receivables are generally reported over time based on the number of units completed, which aligns with the progress towards fulfilling its obligations under the contract.

Days Sales Outstanding ("DSO") decreased to 78 days at December 31, 2020 from 81 days at December 31, 2019 due to timing of cash receipts.

Stock Based Compensation

We recognize compensation costs for all share-based payment awards made to employees, non-employee contracted physicians and directors based upon the awards' initial grant-date fair value. For stock options, we use a trinomial lattice option-pricing model to estimate the fair value of stock option awards, and recognize compensation cost on a straight-line basis over the awards' requisite service periods. The periodic expense is adjusted for actual forfeitures.

See Note 2. Summary of Significant Accounting Policies and Note 13. Stock Compensation, to our Consolidated Financial Statements for more information regarding the assumptions used in our valuation of stock-based compensation.

Deferred Taxes

Our accounting for deferred tax consequences represents our best estimate of future events that can be appropriately reflected in accounting estimates. The factors included in the analysis are historical and projected future taxable income including evolving business practices of our industry. Changes in existing tax laws, regulations, rates and future operating results may impact the amount of deferred tax liabilities and deferred tax assets over time.

Management assesses the available positive and negative evidence to estimate if sufficient future taxable income will be generated to realize the existing deferred tax assets.

As of December 31, 2020 and 2019, the Company determined that sufficient positive evidence did not exist to conclude that it is more likely than not that net operating losses generated by the Company's Switzerland, Singapore and China operations would be able to be utilized in future periods and has therefore established a full valuation allowance against the deferred tax assets generated by such losses.

Results of Operations for the year ended December 31, 2020 as compared with the year ended December 31, 2019

The following table presents the condensed Consolidated Statements of Operations as a percentage of revenue:

	For the Years Ended December 31,	
	2020	2019
NET REVENUE	100.0 %	100.0 %
Cost of revenue	58.2 %	51.9 %
GROSS PROFIT	41.8 %	48.1 %
Operating expenses:		
General and administrative	32.3 %	31.3 %
Research and development	1.9 %	2.1 %
Sales and marketing	10.8 %	11.6 %
Total operating expenses	45.0 %	45.0 %
(LOSS) INCOME FROM OPERATIONS	(3.2)%	3.1 %
Interest expense, net	1.6 %	0.9 %
Other (income) expense	(2.7)%	1.1 %
Loss on extinguishment of debt	0.3 %	0.2 %
Loss on termination of cash flow hedge	0.8 %	— %
Net (loss) income before income taxes	(3.2)%	0.9 %
Income tax benefit	(4.1)%	(1.1)%
NET INCOME	0.9 %	2.0 %

Revenue

Clinical Services and Pharma Services revenue for the periods presented are as follows ($ in thousands):

	For the Years Ended December 31,		
	2020	2019	% Change
Net revenues:			
Clinical Services	$ 382,337	$ 361,161	5.9 %
Pharma Services	62,111	47,669	30.3 %
Total Revenue	$ 444,448	$ 408,830	8.7 %

Consolidated revenues increased $35.6 million, or 8.7%, year-over-year. Growth in our Clinical Services segment year-over-year, was $21.2 million, or 5.9% This increase was primarily driven by COVID-19 PCR testing revenue of $27.8 million for the year ended

December 31, 2020. Clinical testing volume[(1)] decreased by approximately 1.2% year-over-year reflecting the impact of the COVID-19 pandemic.

Pharma Services revenue increased $14.4 million, or 30.3%, year-over-year. In addition, our backlog of signed contracts has continued to grow from $130.3 million as of December 31, 2019 to $208.9 million as of December 31, 2020. We define backlog as the stated amount of signed contracts less dormant contracts with no activity for twelve months, contingencies and cancellations. We expect this backlog to result in higher revenues in future years.

We also expect to achieve continued revenue growth in our Pharma Services segment due to our expanding international presence including the opening of a laboratory in Singapore in 2019 and the expected opening of our laboratory in Suzhou, China in 2021.

The following table shows Clinical Services revenue, cost of revenue, requisitions received and tests performed for the years ended December 31, 2020 and 2019 excluding requisitions, tests, revenue and costs of revenue for Pharma Services and COVID-19 PCR tests. Testing revenue and cost of revenue are presented in thousands below:

	For the Years Ended December 31,		
	2020	2019	% Change
Clinical[(1)]:			
Requisitions (cases) received	559,420	573,085	(2.4)%
Number of tests performed	976,069	987,539	(1.2)%
Average number of tests/requisition	1.74	1.72	1.2 %
Average revenue/requisition	$ 634	$ 630	0.6 %
Average revenue/test	$ 363	$ 366	(0.8)%
Average cost/requisition	$ 356	$ 324	9.9 %
Average cost/test	$ 204	$ 188	8.5 %

(1) Clinical tests exclude requisitions, tests, revenue and costs of revenue for Pharma Services and COVID-19 PCR tests.

Average revenue per test was approximately flat for the year ended December 31, 2020 compared to the corresponding period in 2019.

Cost of Revenue and Gross Profit

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

Average cost per test increased 8.5% year-over-year, reflecting a volume reduction due to the COVID-19 pandemic and the fixed nature of many of our laboratory costs. In addition, we did not reduce our workforce due to temporary declines in volume related to the COVID-19 pandemic.

The consolidated cost of revenue and gross profit metrics are as follows ($ in thousands):

	For the Years Ended December 31,		
	2020	2019	% Change
Cost of revenue:			
Clinical Services	$ 215,529	$ 185,612	16.1 %
Pharma Services	43,026	26,382	63.1 %
Total cost of revenue	$ 258,555	$ 211,994	22.0 %
Cost of revenue as a % of revenue	58.2 %	51.9 %	
Gross Profit:			
Clinical Services	$ 166,808	$ 175,549	(5.0)%
Pharma Services	19,085	21,287	(10.3)%
Total gross profit	$ 185,893	$ 196,836	(5.6)%
Gross profit margin	41.8 %	48.1 %	

Consolidated cost of revenue in dollars increased for the year ended December 31, 2020 when compared to the same period in 2019. Consolidated cost of revenue as a percentage of revenue also increased year-over-year. These increases in cost of revenue are largely due to an increase in payroll related costs as well as the addition of our La Jolla, California laboratory which was acquired in the HLI - Oncology acquisition.

Gross profit margin for 2020 was 41.8% compared to 48.1% in 2019 primarily due to the timing of Pharma Services revenue, higher costs due to the integration of Genoptix, Inc. and HLI - Oncology and additional testing capacity which was not fully utilized due to the impact of the COVID-19 pandemic.

General and Administrative Expenses

General and administrative expenses consist of payroll and payroll related costs for our billing, finance, human resources, information technology and other administrative personnel as well as stock-based compensation. We also allocate professional services, facilities expense, IT infrastructure costs, depreciation, amortization and other administrative-related costs to general and administrative expenses.

Consolidated general and administrative expenses for the periods presented are as follows ($ in thousands):

	For the Years Ended December 31,			
	2020	2019	$ Change	% Change
General and administrative	$ 143,794	$ 127,993	$ 15,801	12.3 %
General and administrative as a % of revenue	32.3 %	31.3 %		

General and administrative expenses for the year ended December 31, 2020 increased $15.8 million compared to 2019, primarily reflecting higher payroll and payroll related costs due to increases in personnel to support our near and long-term growth as well as acquisition costs and incremental expenses related to the acquisition of HLI - Oncology. For the year ended December 31, 2020, acquisition and integration costs related to HLI - Oncology were approximately $1.6 million.

We expect our general and administrative expenses to increase in total but decrease as a percentage of revenue as we add employee and compensation expenses, incur additional expenses associated with the expansion of our facilities, and continue to expand our physical and technological infrastructure to support our anticipated growth.

Research and Development Expenses

Research and development expenses relate to the cost of developing new genetic tests, including payroll and payroll-related costs, maintenance of laboratory equipment, laboratory supplies, outside consultants and experts assisting our research and development team.

Consolidated research and development expense for the periods presented are as follows ($ in thousands):

	For the Years Ended December 31,			
	2020	2019	$ Change	% Change
Research and development	$ 8,229	$ 8,487	$ (258)	(3.0)%
Research and development as a % of revenue	1.9 %	2.1 %		

Research and development expenses for the year ended December 31, 2020 decreased $0.3 million, when compared to the same period in 2019. This decrease is due to the timing of project expenses.

We anticipate research and development expenditures will increase in future quarters as we invest in innovation projects and bringing new tests to market.

Sales and Marketing Expenses

Sales and marketing expenses are primarily attributable to employee-related costs including sales management, sales representatives, sales and marketing consultants and marketing and customer service personnel.

Consolidated sales and marketing expenses for the periods presented are as follows ($ in thousands):

	For the Years Ended December 31.			
	2020	2019	$ Change	% Change
Sales and marketing	$ 47,862	$ 47,350	$ 512	1.1 %
Sales and marketing as a % of revenue	10.8 %	11.6 %		

Sales and marketing expenses for the year ended December 31, 2020 increased $0.5 million when compared to the same period in 2019. This increase primarily reflects the expansion of our sales team, as well as higher commissions due to our increase in revenues and continued investments in marketing. We expect higher commissions expense in the coming years as the sales representatives continue generating new business with a focus on oncology office sales. We expect our sales and marketing expenses over the long-term to align with changes in revenue.

Interest Expense, net

Net interest expense is comprised of interest incurred on our convertible debt, term loan, revolving credit facility and our equipment financing obligations offset by the interest income we earn on cash balances. Net interest expense for the year ended December 31, 2020 increased $3.3 million compared to the same period in 2019. These increases reflect the effective interest rate on the 2025 Convertible Notes which is 5.5%. Interest on the 2025 Convertible Notes began accruing upon issuance and is payable semi-annually. See Note 9. Debt, to our Consolidated Financial Statements for further details regarding the 2025 Convertible Notes.

Other (income) expense, net

Other (income) expense, net, for the year ended December 31, 2020 was income of $11.9 million compared to expense of $4.6 million for the same period in 2019. The income for the year ended December 31, 2020 was a combination of $4 million net unrealized gain due to a remeasurement of our investment in Inivata and the recognition of $7.9 million in grant income related to the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act") Public Health and Social Service Emergency Fund. See Note 8. Investment in Non-Consolidated Affiliate, to our Consolidated Financial Statements for further details regarding the remeasurement. The Public Health and Social Service Emergency Fund payments are intended to reimburse healthcare providers for health care related expenses or lost revenues attributable to COVID-19 and are not required to be repaid provided that recipients attest to and comply with certain terms and conditions, including limitations on balance billing for COVID-19 patients. The stimulus payments were issued to partially offset losses in patient care revenue due to the impact of the COVID-19 pandemic as well as reimbursement of health care related expenses. For the year ended December 31, 2019, the reported expense was primarily related to a litigation settlement.

Net Income

The following table provides the net income for each period along with the computation of basic and diluted net income per share (in thousands, except per share amounts):

	For the Years Ended December 31,	
	2020	2019
Net income	$ 4,172	$ 8,006
Basic weighted average common shares outstanding	108,579	100,470
Effect of potentially dilutive securities	3,215	3,145
Diluted weighted average shares outstanding	111,794	103,615
Basic net income per share	$ 0.04	$ 0.08
Diluted net income per share	$ 0.04	$ 0.08

Non-GAAP Measures

Use of Non-GAAP Financial Measures

The financial results and financial guidance are provided in accordance with GAAP and using certain non-GAAP financial measures. Management believes that the presentation of operating results using non-GAAP financial measures provides useful supplemental information to investors and facilitates the analysis of the core operating results and comparison of core operating results across reporting periods. Management also uses non-GAAP financial measures for financial and operational decision making, planning and forecasting purposes and to manage the business. Management believes that these non-GAAP financial measures enable investors to evaluate the operating results and future prospects in the same manner as management. The non-GAAP financial measures do not replace the presentation of GAAP financial results and should only be used as a supplement to, and not as a substitute for, the financial results presented in accordance with GAAP. There are limitations inherent in non-GAAP financial measures because they exclude charges and credits that are required to be included in a GAAP presentation, and do not present the full measure of the recorded costs against its net revenue. In addition, the definition of the non-GAAP financial measures below may differ from non-GAAP measures used by other companies.

Definitions of Non-GAAP Measures

Non-GAAP Adjusted EBITDA

We define "Adjusted EBITDA" as net income from continuing operations before: (i) interest expense, (ii) tax expense, (iii) depreciation and amortization expense, (iv) non-cash stock-based compensation expense, and, if applicable in a reporting period, (v) acquisition and integration related expenses, (vi) non-cash impairments of intangible assets, (vii) and other significant non-recurring or non-operating (income) or expenses.

The following is a reconciliation of GAAP net income to Non-GAAP EBITDA and Adjusted EBITDA for the years ending December 31, 2020 and 2019 ($ in thousands):

	For the Years Ended December 31,	
	2020	2019
NET INCOME (GAAP)	$ 4,172	$ 8,006
Adjustments to net income:		
Interest expense, net	7,019	3,713
Amortization of intangibles	9,817	9,925
Income tax benefit	(18,228)	(4,361)
Depreciation of property and equipment	25,904	20,346
EBITDA (non-GAAP)	28,684	37,629
Further Adjustments to EBITDA:		
Acquisition and integration related expenses	2,073	3,195
Loss on extinguishment of debt	1,400	1,018
Other significant non-recurring (income) expenses[(2)]	(7,527)	5,375
Non-cash stock-based compensation	10,212	10,000
ADJUSTED EBITDA (non-GAAP)	$ 34,842	$ 57,217
Adjusted EBITDA as % of Revenue	7.8 %	14.0 %

[(2)] Other significant non-recurring (income) expenses includes grant income received related to the CARES Act, net unrealized gain on investment in non-consolidated affiliate, cash flow hedge termination fees, and other non-recurring items.

Liquidity and Capital Resources

To date, we have financed our operations primarily through cash generated from operations, public and private sales of debt and equity securities, and bank debt borrowings.

The following table presents a summary of our cash flows (used in) provided by operating, investing and financing activities for the years ended December 31, 2020 and 2019 as well as the period ending cash and cash equivalents and working capital (in thousands).

	For the Years Ended December 31,	
	2020	2019
Net cash provided by (used in):		
Operating activities	$ 1,460	$ 23,369
Investing activities	(159,441)	(19,630)
Financing activities	235,597	159,466
Net increase in cash and cash equivalents	77,616	163,205
Cash and cash equivalents, beginning of period	173,016	9,811
Cash, cash equivalents and restricted cash, end of period	$ 250,632	$ 173,016
Working Capital[(1)], end of period	$ 375,547	$ 226,834

[(1)] Defined as current assets less current liabilities.

Cash Flows from Operating Activities

During the year ended December 31, 2020, cash provided by operating activities was $1.5 million, consisting of net income of $4.2 million plus net adjustments to income of $59.0 million. Included in net income was grant income of $7.9 million related to the CARES Act. This was partially offset by the cash flow impact of net changes in operating assets and liabilities of $61.7 million. The change in operating assets was primarily driven by a $20.2 million increase in funds distributed for the construction of the new headquarters facility, an increase in inventory due to higher spend on materials to mitigate the risk of potential supply chain disruptions resulting from the COVID-19 pandemic, as well as inventory purchased to perform COVID-19 PCR testing, and an increase in accounts receivable due to an increase in revenue.

Cash Flows from Investing Activities

During the year ended December 31, 2020, cash used in investing activities was $159.4 million, an increase of approximately $139.8 million compared to the same period in 2019. This use of cash was primarily due to a net investment of $67.7 million in marketable securities, $37 million for the acquisition of the HLI - Oncology, the $25.6 million investment made in Inivata and $29.1 million of cash used for capital expenditures.

Cash Flows from Financing Activities

During the year ended December 31, 2020, cash provided by financing activities was $235.6 million compared to $159.5 million for the same period in 2019. Cash provided by financing activities during the year ended December 31, 2020 consisted primarily of convertible debt proceeds of $194.5 million, net of deferred finance charges, proceeds from the equity offering of $127.3 million and $20.3 million for the net issuance of common stock. This activity was primarily offset by the use of cash in amounts of $103.2 million for the net repayment of the term loan and equipment financing obligations and $3.3 million in cash flow hedge termination fees.

Liquidity Outlook

As of December 31, 2020, we had $228.7 million in unrestricted cash and cash equivalents in addition to $67.5 million of marketable securities available to support current operational liquidity needs. Subsequent to December 31, 2020, on January 11, 2021, the Company closed on concurrent underwritten public offerings of its common stock and 0.25% convertible senior notes due 2028. The net proceeds of these offerings were approximately $552.8 million after deducting the underwriting discounts, commissions and estimated offering expenses. The Company used $29 million of the net proceeds from the offerings to enter into capped call transactions. The Company intends to use the remaining net proceeds from the offerings for general corporate purposes and/or to acquire or invest in complementary businesses and technologies. See Note 21. Subsequent Events, to our Consolidated Financial Statements for further details regarding these offerings.

We anticipate that the cash on hand, marketable securities and cash collections are sufficient to fund our near-term capital and operating needs for at least the next 12 months. Operating needs include, but are not limited to, the planned costs to operate our business, including amounts required to fund working capital and capital expenditures, continued research and development efforts, and potential strategic acquisitions and investments.

Related Party Transactions

See Note 19. Related Party Transactions, to our Consolidated Financial Statements for a description of our related party transactions.

Contractual Obligations

The following table summarizes our significant contractual obligations as of December 31, 2020 ($ in thousands):

	Total	2021	2022-2023	2024-2025	Thereafter
Purchase obligations	$ 7,993	$ 6,770	$ 1,223	$ —	$ —
Equipment financing obligations	3,808	2,841	967	—	—
Operating lease obligations	61,322	7,124	11,051	8,917	34,230
Principal payments of long-term debt[(1)]	168,658	—	—	168,658	—
Total contractual obligations	$ 241,781	$ 16,735	$ 13,241	$ 177,575	$ 34,230

(1) Amounts represent required principal debt payments on our 1.25% Convertible Senior Notes due 2025. See Note 9. Debt, to our Consolidated Financial Statements for a full description of the terms of our indebtedness and the related debt service requirements.

Capital Expenditures

We forecast capital expenditures in order to execute on our business plan and maintain growth; however, the actual amount and timing of such capital expenditures will ultimately be determined by the volume of business. We currently anticipate that our capital expenditures for the year ended December 31, 2021 will be in the range of $45 million to $55 million. We have funded and plan to continue funding these capital expenditures with cash and financing.

Recently Adopted Accounting Guidance

See Note 2. Summary of Significant Accounting Policies, to our Consolidated Financial Statements for a discussion of recently adopted accounting pronouncements and accounting pronouncements pending adoption.

Off Balance Sheet Arrangements

On May 22, 2020, in conjunction with the Investment Agreement, the Company and Inivata entered into a five-year line of credit agreement in the amount of $15 million (the “Line of Credit”). The amounts borrowed under the Line of Credit are contractually limited to the working capital purposes of Inivata, and not towards acquisitions of companies, businesses or undertakings. In January 2021, the $15 million Line of Credit, in its entirety, was drawn by Inivata and has a maturity date of December 1, 2025. The Line of Credit bears interest at 0% per annum and the unpaid principal balance is payable on January 1, 2026. See Note 8. Investment in Non-Consolidated Affiliate, to our Consolidated Financial Statements for more information on the Line of Credit.

Effects of Inflation

We do not believe that inflation has had a material impact on our business, revenues, or operating results during the periods presented.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk is the potential loss arising from adverse changes in market rates and prices, such as foreign currency exchange rates, interest rates and other relevant market rate or price changes. We are exposed to market risks, including changes in foreign currency exchange rates.

Interest Rate Risk

We are exposed to interest rate risk on our short-term investments. The primary objective of our investment activities is to preserve principal while at the same time maximizing yields without significantly increasing risk. To achieve this objective, we invest in highly liquid and high-quality government and other debt securities. To minimize our exposure due to adverse shifts in interest rates, we invest in short-term securities with short maturities. If a 1% change in interest rates were to have occurred on December 31, 2020, this change would not have had a material effect on the fair value of our investment portfolio as of that date. Due to the short holding period of our investments, we have concluded that we do not have a material financial market risk exposure.

Foreign Currency Exchange Risk

We have operations in Rolle, Switzerland, Singapore and Suzhou, China. Our international revenues and expenses denominated in foreign currencies (primarily Swiss Francs, Singapore Dollars and Chinese Yuan), expose us to the risk of fluctuations in foreign currency exchange rates against the U.S. dollar. We do not hedge foreign currency exchange risks and do not currently feel that these risks are significant.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

REPORT OF INDEPENDENT REGISTERED ACCOUNTING FIRM

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

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of NeoGenomics, Inc. and subsidiaries (the "Company") as of December 31, 2020 and 2019, the related consolidated statements of operations, comprehensive income, redeemable convertible preferred stock and stockholders' equity, and cash flows, for each of the two years in the period ended December 31, 2020, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2020 and 2019, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2020, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2020, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 25, 2021, expressed an unqualified opinion on the Company's internal control over financial reporting.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current-period audit of the financial statements that were communicated or required to be communicated to the audit committee and that (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

Revenue Recognition—Clinical Services—Refer to Notes 2 and 14 to the financial statements

Critical Audit Matter Description

As discussed in Note 14 to the financial statements, revenue for the Company’s clinical services is recognized once the diagnostic services have been performed and the results have been delivered to the ordering physician. Revenue is recorded for all payers based on the amount expected to be collected, which considers implicit price concessions.

Implicit price concessions represent differences between amounts billed and the estimated consideration the Company expects to receive based on negotiated discounts, historical collection experience and other anticipated adjustments, including anticipated payer denials.

We identified management’s estimation of implicit price concessions related to NeoGenomics revenue recorded that has not been received in cash as a critical audit matter due to management’s manual process used to determine the estimate, and the significant judgments required by management to estimate payer behavior. This required a high degree of auditor judgment and an increased extent

of effort when performing audit procedures to evaluate the reasonableness of management's assumptions related to expected receipts that were applied in the estimate of implicit price concessions.

How the Critical Audit Matter Was Addressed in the Audit

Our audit procedures related to management's judgments in the estimate of implicit price concessions included the following, among others:

- We tested the effectiveness of controls over management's determination of assumptions used to calculate implicit price concessions.
- We tested the methodology used by the Company to estimate implicit price concessions.
- We tested the assumptions used by management to calculate implicit price concessions by:
  - Testing the mathematical accuracy of management's calculation of implicit price concessions.
  - Testing the historical cash receipts compared to the amounts billed to payers, which are used in the estimate of implicit price concessions, by making selections and agreeing the selected information to source documents.
  - Testing management's ability to estimate implicit price concessions accurately by comparing recorded net revenue to cash receipts received through January 2021.
  - Evaluating trends in revenue and accounts receivable compared to previous periods to identify any evidence that may contradict management's assertion regarding implicit price concessions.

Investment in Non-Consolidated Affiliate—Inivata—Refer to Notes 8 and 19 to the financial statements

Critical Audit Matter Description

As discussed in Note 8, on May 22, 2020, the Company entered into an Investment Agreement with Inivata Limited, a company incorporated in England and Wales ("Inivata"), pursuant to which the Company acquired Preference Shares, resulting in a minority interest in Inivata's outstanding equity, and a Purchase Option. Inivata is required to be evaluated for consolidation, which includes determining whether Inivata is a variable interest entity ("VIE"), and if so, whether the Company is the primary beneficiary. Significant judgment is required by management to determine whether the Company has the power to direct the activities that most significantly impact Inivata's economic performance.

The Company determined that Inivata is a VIE, but that it does not control Inivata due to the Company not having the power to direct the activities that most significantly impact Inivata's economic performance.

Given the complexities associated with the determination by the Company that Inivata should not be consolidated because the Company is not the primary beneficiary of Inivata, performing audit procedures to evaluate the accounting for the investment in Inivata involved especially complex and subjective auditor judgment.

How the Critical Audit Matter Was Addressed in the Audit

Our audit procedures related to the initial accounting for the Inivata Preference Shares and Purchase Option included the following, among others:

- We tested the effectiveness of controls over the Company's evaluation of whether Inivata is a VIE and whether the Company is the primary beneficiary.
- With the assistance of professionals in our firm having expertise in consolidation accounting, we evaluated management's judgments related to the application of U.S. GAAP by evaluating management's accounting analysis to determine whether we agree with management's conclusion that Inivata should not be consolidated.

/s/ Deloitte & Touche LLP

San Diego, California
February 25, 2021

We have served as the Company's auditor since 2019.

Report of Independent Registered Public Accounting Firm

Shareholders and the Board of Directors of NeoGenomics, Inc.
Fort Myers, Florida

Opinion on the Financial Statements

We have audited the accompanying consolidated statements of operations, comprehensive income (loss), redeemable convertible preferred stock and stockholders' equity, and cash flows of NeoGenomics, Inc. (the "Company") for the year ended December 31, 2018, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements referred to above present fairly, in all material respects, the Company's results of operations and cash flows for the year ended December 31, 2018 in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud.

Our audit included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/Crowe LLP

We served as the Company's auditor from 2014 to 2018.

Indianapolis, Indiana
February 26, 2019

CONSOLIDATED BALANCE SHEETS
(In thousands, except share and per share amounts)

	As of December 31,	
	2020	2019
ASSETS		
Current assets		
Cash and cash equivalents	$ 228,713	$ 173,016
Marketable securities, at fair value	67,546	—
Accounts receivable, net	106,843	94,242
Inventories	29,526	14,405
Prepaid assets	11,547	6,327
Other current assets	4,555	2,748
Total current assets	448,730	290,738
Property and equipment (net of accumulated depreciation of $92,895 and $68,809, respectively)	85,873	64,188
Operating lease right-of-use assets	45,786	26,492
Intangible assets, net	120,653	126,640
Goodwill	211,083	198,601
Restricted cash	21,919	—
Prepaid lease asset	20,229	—
Investment in non-consolidated affiliate	29,555	—
Other assets	4,503	2,847
Total non-current assets	539,601	418,768
Total assets	$ 988,331	$ 709,506
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	$ 24,965	$ 19,568
Accrued compensation	24,727	21,365
Accrued expenses and other liabilities	11,654	7,548
Current portion of equipment financing obligations	2,841	5,432
Current portion of operating lease liabilities	4,967	3,381
Current portion of term loan	—	5,000
Pharma contract liabilities	4,029	1,610
Total current liabilities	73,183	63,904
Long-term liabilities		
Convertible senior notes, net	168,120	—
Equipment financing obligations	967	3,199
Operating lease liabilities	42,296	24,034
Term loan, net	—	91,829
Deferred income tax liabilities, net	5,415	15,566
Other long-term liabilities	4,056	3,566
Total long-term liabilities	220,854	138,194
Total liabilities	294,037	202,098
Stockholders' equity		
Common stock, $0.001 par value, (250,000,000 shares authorized; 112,075,474 and 104,781,236 shares issued and outstanding, respectively)	112	105
Additional paid-in capital	701,357	520,278
Accumulated other comprehensive loss	10	(1,618)
Accumulated deficit	(7,185)	(11,357)
Total stockholders' equity	694,294	507,408
Total liabilities and stockholders' equity	$ 988,331	$ 709,506

See the accompanying notes to the Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share amounts)

	For the Years Ended December 31,		
	2020	**2019**	**2018**
NET REVENUE			
Clinical Services	$ 382,337	$ 361,161	$ 241,873
Pharma Services	62,111	47,669	34,868
Total net revenue	444,448	408,830	276,741
COST OF REVENUE	258,555	211,994	149,476
GROSS PROFIT	185,893	196,836	127,265
Operating expenses:			
General and administrative	143,794	127,993	84,822
Research and development	8,229	8,487	3,001
Sales and marketing	47,862	47,350	29,402
Total operating expenses	199,885	183,830	117,225
(LOSS) INCOME FROM OPERATIONS	(13,992)	13,006	10,040
Interest expense, net	7,019	3,713	6,230
Other (income) expense, net	(11,861)	4,630	(14)
Loss on extinguishment of debt	1,400	1,018	—
Loss on termination of cash flow hedge	3,506	—	—
(Loss) income before taxes	(14,056)	3,645	3,824
Income tax (benefit) expense	(18,228)	(4,361)	1,184
NET INCOME	4,172	8,006	2,640
Deemed dividends on preferred stock and amortization of beneficial conversion feature	—	—	5,627
Gain on redemption of preferred stock	—	—	(9,075)
NET INCOME ATTRIBUTABLE TO COMMON STOCKHOLDERS	$ 4,172	$ 8,006	$ 6,088
NET INCOME PER SHARE ATTRIBUTABLE TO COMMON STOCKHOLDERS			
Basic	$ 0.04	$ 0.08	$ 0.07
Diluted	$ 0.04	$ 0.08	$ 0.07
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING			
Basic	108,579	100,470	85,618
Diluted	111,794	103,615	91,568

See the accompanying notes to the Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(In thousands)

	For the Years Ended December 31,		
	2020	2019	2018
NET INCOME	$ 4,172	$ 8,006	$ 2,640
OTHER COMPREHENSIVE (LOSS) INCOME:			
Unrealized loss on marketable securities, net	(33)	—	—
Unrealized loss on effective cash flow hedge	(1,000)	(1,039)	(785)
Foreign currency translation adjustments	—	—	(68)
Cash flow hedge termination reclassified to earnings	2,661	—	—
Total other comprehensive income (loss), net of tax	1,628	(1,039)	(853)
COMPREHENSIVE INCOME	$ 5,800	$ 6,967	$ 1,787

See the accompanying notes to the Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF REDEEMABLE CONVERTIBLE PREFERRED STOCK AND STOCKHOLDERS' EQUITY
(In thousands, except share amounts)

	Series A Redeemable Convertible Preferred Stock		Common Stock		Additional Paid-In	Accumulated Other Comprehensive	Accumulated	
	Shares	Amount	Shares	Amount	Capital	Income	Deficit	Total
Balance, December 31, 2017	6,864,000	$ 32,615	80,462,574	$ 80	$ 194,687	$ 274	$ (23,079)	$ 171,962
Common stock issuance ESPP plan	—	—	117,146	—	1,050	—	—	1,050
Redemption of Series A Preferred Stock	(6,864,000)	(37,823)	—	—	(21,348)	—	—	(21,348)
Stock issuance fees and expenses	—	—	—	—	(354)	—	—	(354)
Foreign currency translation adjustments	—	—	—	—	—	(68)	(54)	(122)
Loss on effective cash flow hedge	—	—	—	—	—	(785)	—	(785)
Issuance of common stock - Acquisition	—	—	999,994	1	13,242	—	—	13,243
Issuance of common stock - public offering, net of underwriting discounts	—	—	11,270,000	11	135,060	—	—	135,071
Issuance of restricted stock, net of forfeitures	—	—	62,182	—	(297)	—	—	(297)
Issuance of common stock for stock options	—	—	1,553,544	2	8,596	—	—	8,598
Deemed dividends on preferred stock and amortization of beneficial conversion feature	—	5,208	—	—	(5,208)	—	—	(5,208)
Gain on redemption of preferred stock	—	—	—	—	9,075	—	—	9,075
ESPP Expense	—	—	—	—	243	—	—	243
Stock compensation expense - options and restricted stock	—	—	—	—	6,640	—	—	6,640
Adjustment for impact of accounting standard	—	—	—	—	(1,095)	—	1,130	35
Net income	—	—	—	—	—	—	2,640	2,640
Balance, December 31, 2018	—	$ —	94,465,440	$ 94	$ 340,291	$ (579)	$ (19,363)	$ 320,443
Common stock issuance ESPP plan	—	—	141,908	—	2,332	—	—	2,332
Stock issuance fees and expenses	—	—	—	—	(263)	—	—	(263)
Loss on effective cash flow hedge	—	—	—	—	—	(1,039)	—	(1,039)
Issuance of restricted stock, net of forfeitures	—	—	168,501	—	(837)	—	—	(837)
Working capital adjustment related to acquisition	—	—	(99,524)	—	(1,977)	—	—	(1,977)
Issuance of common stock - public offering, net of underwriting discounts	—	—	8,050,000	8	160,766	—	—	160,774
Issuance of common stock for stock options	—	—	2,054,911	3	9,971	—	—	9,974
ESPP Expense	—	—	—	—	609	—	—	609
Stock compensation expense - options and restricted stock	—	—	—	—	9,386	—	—	9,386
Net income	—	—	—	—	—	—	8,006	8,006
Balance, December 31, 2019	—	$ —	104,781,236	$ 105	$ 520,278	$ (1,618)	$ (11,357)	$ 507,408
Common stock issuance ESPP Plan	—	—	138,309	—	3,579	—	—	3,579
Stock issuance fees and expenses	—	—	—	—	(268)	—	—	(268)
Loss on effective cash flow hedge, net	—	—	—	—	—	(1,000)	—	(1,000)
Cash flow hedge termination reclassified to earnings	—	—	—	—	—	2,661	—	2,661
Unrealized loss on securities, net	—	—	—	—	—	(33)	—	(33)
Issuance of restricted stock, net of forfeitures	—	—	97,478	—	(1,276)	—	—	(1,276)
Issuance of common stock for stock options	—	—	2,306,951	2	18,273	—	—	18,275
Issuance of common stock - public offering, net of underwriting discounts	—	—	4,751,500	5	127,288	—	—	127,293
ESPP expense	—	—	—	—	875	—	—	875
Stock-based compensation expense - options and restricted stock	—	—	—	—	9,337	—	—	9,337
Equity component of Convertible Senior Notes due 2025	—	—	—	—	30,912	—	—	30,912
Tax liability related to Convertible Senior Notes due 2025	—	—	—	—	(7,504)	—	—	(7,504)
Convertible note debt issuance costs	—	—	—	—	(137)	—	—	(137)
Net income	—	—	—	—	—	—	4,172	4,172
Balance, December 31, 2020	—	$ —	112,075,474	$ 112	$ 701,357	$ 10	$ (7,185)	$ 694,294

See the accompanying notes to the Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	For the Years Ended December 31,		
	2020	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$ 4,172	$ 8,006	$ 2,640
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	25,904	20,346	15,804
Amortization of intangibles	9,817	9,925	5,928
Non-cash stock-based compensation	10,212	10,000	6,955
Non-cash operating lease expense	6,168	5,635	—
Amortization of convertible debt discount	4,358	—	—
Amortization of debt issuance costs	165	390	542
Loss on debt extinguishment	1,400	1,018	—
Loss on termination of cash flow hedge	3,506	—	—
Unrealized gain on investment in non-consolidated affiliate, net	(3,955)	—	—
Other non-cash items	1,460	472	404
Changes in assets and liabilities, net:			
Accounts receivable, net	(12,601)	(17,301)	209
Inventories	(15,197)	(5,754)	734
Prepaid lease asset	(20,229)	—	—
Prepaid and other assets	(9,750)	(367)	(1,834)
Accounts payable, accrued and other liabilities	(3,970)	(9,001)	13,404
Net cash provided by operating activities	1,460	23,369	44,786
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of marketable securities	(73,101)	—	—
Proceeds from sales and maturities of marketable securities	5,356	—	—
Purchases of property and equipment	(29,096)	(20,029)	(14,310)
Business acquisition	(37,000)	—	(125,377)
Investment in non-consolidated affiliate	(25,600)	—	—
Acquisition working capital adjustment	—	399	—
Net cash used in investing activities	(159,441)	(19,630)	(139,687)
CASH FLOWS FROM FINANCING ACTIVITIES			
Advances on revolving credit facility	—	—	15,000
Repayment of revolving credit facility	—	(5,000)	(35,400)
Redemption of preferred stock	—	—	(50,096)
Repayment of equipment financing obligations	(5,615)	(7,201)	(6,563)
Proceeds from term loan	—	100,000	30,000
Repayment of term loan	(97,540)	(99,250)	(4,500)
Cash flow hedge termination	(3,317)	—	—
Payments of debt issuance costs for term loan	—	(1,059)	(576)
Issuance of common stock, net	20,310	11,202	9,023
Proceeds from issuance of convertible debt, net of issuance costs	194,466	—	—
Proceeds from equity offering, net of issuance costs	127,293	160,774	135,071
Net cash provided by financing activities	235,597	159,466	91,959
Effects of foreign exchange rate changes on cash and cash equivalents	—	—	(68)
Net change in cash and cash equivalents	77,616	163,205	(3,010)
Cash and cash equivalents, beginning of year	173,016	9,811	12,821
Cash, cash equivalents and restricted cash, end of year	$ 250,632	$ 173,016	$ 9,811

Reconciliation of cash, cash equivalents and restricted cash to the Consolidated Balance Sheets:			
Cash and cash equivalents	$ 228,713	$ 173,016	$ 9,811
Restricted cash	21,919	—	—
Total cash, cash equivalents and restricted cash	$ 250,632	$ 173,016	$ 9,811
Supplemental disclosure of cash flow information:			
Interest paid	$ 2,926	$ 4,775	$ 6,511
Income taxes paid (refunded), net	$ 246	$ 319	$ (31)
Supplemental disclosure of non-cash investing and financing information:			
Fair value of common stock issued to fund acquisition	$ —	$ —	$ 13,243
Working capital adjustment related to acquisition	$ —	$ 1,977	$ —
Equipment acquired under financing obligations	$ 428	$ 4,283	$ 7,569
Property and equipment included in accounts payable	$ 2,007	$ 1,034	$ 660

See the accompanying notes to the Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Nature of Business and Basis of Presentation

Nature of the Business

NeoGenomics, Inc., a Nevada corporation (the "Parent", "the Company", "NeoGenomics"), and its subsidiaries operates as a certified high complexity clinical laboratory in accordance with the federal government's Clinical Laboratory Improvement Act, as amended, and is dedicated to the delivery of clinical diagnostic services to pathologists, oncologists, hospitals, and other laboratories as well as providing clinical trial services to pharmaceutical firms.

Basis of Presentation

The accompanying Consolidated Financial Statements include the accounts of the Parent, all subsidiaries, and the accounts of any variable interest entities where the Company has determined it is the primary beneficiary. All intercompany accounts and balances have been eliminated in consolidation.

Segment Reporting

The Company reports its activities in two operating segments; the Clinical Services segment and the Pharma Services segment. These reportable segments deliver testing services to hospitals, reference labs, pathologists, oncologists, clinicians, pharmaceutical firms and researchers and represent 100% of the Company's consolidated assets, net revenues and net income for each of the three years ended December 31, 2020, 2019 and 2018, respectively. See Note 20. Segment Information, for further financial information about these segments.

Note 2. Summary of Significant Accounting Policies

COVID-19 Pandemic

In December 2019, a novel strain of coronavirus ("COVID-19") was identified and the disease has since spread across the world, including the United States ("U.S."). In March 2020, the World Health Organization declared the outbreak of COVID-19 a pandemic. The outbreak of the pandemic is materially adversely affecting the Company's employees, patients, communities and business operations, as well as the U.S. economy and financial markets. The full extent to which the COVID-19 outbreak will impact the Company's business, results of operations, financial condition and cash flows will depend on future developments that are highly uncertain and cannot be accurately predicted, including new information that may emerge concerning COVID-19 and the actions to contain it or treat its impact and the economic impact on local, regional, national and international markets. As the COVID-19 pandemic continues, the Company's results of operations, financial condition and cash flows are likely to continue to be materially adversely affected, particularly if the pandemic persists for a significant amount of time.

Coronavirus Aid, Relief and Economic Security Act

The Federal government passed legislation and the President of the United States signed into law on March 27, 2020, known as the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act"). On April 10, 2020, the U.S Department of Health & Human Services announced that Medicare-enrolled providers would receive a portion of a direct deposit disbursement totaling $50 billion. The $50 billion is part of a $100 billion Public Health and Social Service Emergency Fund created by the CARES Act. Payments made under the CARES Act are intended to reimburse healthcare providers for health care related expenses or lost revenues attributable to COVID-19 and are not required to be repaid provided that recipients attest to and comply with certain terms and conditions, including limitations on balance billing for COVID-19 patients. In the absence of specific guidance to account for government grants in accordance with accounting principles generally accepted in the United States of America ("GAAP"), the Company accounts for such grants in accordance with international accounting standards for government grants. Such amounts are recognized when there is reasonable assurance that the Company will (1) comply with the conditions associated with the grant and (2) receive the grant.

During the year ended December 31, 2020, the Company recognized $7.9 million in grant income related to the CARES Act. No such amounts were recorded for each of the years ended December 31, 2019 and 2018. CARES Act grant income is classified in "Other (income) expense, net", on the Consolidated Statements of Operations.

The CARES Act also permits the deferral of payment of the employer portion of social security taxes between March 27, 2020 and December 31, 2020, with 50% of the deferred amount due on December 31, 2021 and the remaining 50% due on December 31, 2022. As of December 31, 2020, the total accrued deferred social security taxes, related to the CARES Act was $5.9 million. This amount was recorded evenly between "Accrued expenses and other liabilities" and "Other long-term liabilities" on the Consolidated Balance Sheets. There were no such amounts recorded on the Consolidated Balance Sheets as of December 31, 2019.

Additionally, the CARES Act included an Employee Retention Tax Credit ("ERTC") provision designed to encourage employers to keep employees on their payroll. The ERTC is a refundable tax credit against certain payroll taxes paid by employers for eligible wages paid between March 13, 2020 and December 31, 2020 that meet the requirements of the ERTC provision. For the year ended December 31, 2020, the Company recognized $1.9 million under the ERTC which was included in "(Loss) income from operations" on the Consolidated Statements of Operations. In addition, the CARES Act adjusted several provisions of the Internal Revenue Code. No such amounts were recorded for each of the years ended December 31, 2019 and 2018. See Note 15. Income Taxes, for additional details related to such adjustments.

Use of Estimates

The Company prepares its Consolidated Financial Statements in conformity with GAAP. These principles require management to make estimates, judgments and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, together with amounts disclosed in the related notes to the Consolidated Financial Statements. Actual results and outcomes may differ from management's estimates, judgments and assumptions. Significant estimates, judgments and assumptions used in these Consolidated Financial Statements include, but are not limited to those related to revenues, accounts receivable and related allowances, contingencies, useful lives and recovery of long-term assets and intangible assets, income taxes and valuation allowances, stock-based compensation and impairment analysis of goodwill. These estimates, judgments, and assumptions are reviewed periodically and the effects of material revisions in estimates are reflected on the Consolidated Financial Statements prospectively from the date of the change in estimate.

Principles of Consolidation

The Company determines whether investments in affiliates are a Variable Interest Entity ("VIE") at the start of each new venture and when a reconsideration event has occurred. A reporting entity must consolidate a VIE if that reporting entity has a variable interest (or combination of variable interests) and is determined to be the primary beneficiary. The primary beneficiary has both the power to direct the activities of the VIE that most significantly impact the entity's economic performance and the obligation to absorb losses or the right to receive benefits from the VIE that could potentially be significant to the VIE.

The Company accounts for its equity investments that are under 20% of the total equity outstanding and for which the Company does not have significant influence by applying the cost method. Investments that are under 20% of the total equity outstanding and for which the entity has significant influence are accounted for using the equity method unless a scope exception is applicable. Investments in which the Company holds a non-controlling interest and are between 20-50% equity are accounted for using the equity method. For any equity investments in which the Company holds over 50% of the outstanding stock, or for investments in which the Company controls the investee, the Company consolidates those entities into the Consolidated Financial Statements.

Fair Value of Financial Instruments

The carrying value of cash, certain cash equivalents, accounts receivable, net, other current assets, accounts payable, accrued expenses and other liabilities, and Pharma contract liabilities are considered reasonable estimates of their respective fair values due to their short-term nature.

The Company measures its marketable securities and certain cash equivalents at fair value on a recurring basis. See Note 3. Fair Value Measurements, for further discussion.

Cash and Cash Equivalents

The Company considers all highly liquid investments purchased with an original maturity of ninety days or less to be cash equivalents. The Company maintains its cash and cash equivalents with financial institutions that the Company believes to be of high credit standing. The Company believes that, as of December 31, 2020, its concentration of credit risk related to cash and cash equivalents was not significant.

Marketable Securities

The Company classifies all marketable securities as available-for-sale, including those with maturity dates beyond 12 months, and therefore these securities are classified within current assets on the Consolidated Balance Sheets as they are available to support current operational liquidity needs.

Marketable securities are carried at fair value, with the unrealized holding gains and losses, net of income taxes, reflected in accumulated other comprehensive income until realized. The Company evaluates its marketable securities for other-than-temporary impairment on a quarterly basis. Unrealized losses are charged against net earnings when a decline in fair value is determined to be other-than-temporary. The Company reviews several factors to determine whether a loss is other-than-temporary, such as the length and extent of the fair value decline, the financial condition and near-term prospects of the issuer and whether there is the intent to sell or

will more likely than not be required to sell before the securities' anticipated recovery. Regardless of the intent to sell a security, the Company performs additional analysis on all securities with unrealized losses to

evaluate losses associated with the creditworthiness of the security. Credit losses are recorded when the Company does not expect to receive cash flows sufficient to recover the amortized cost basis of a security.

For the purposes of computing realized and unrealized gains and losses, cost and fair value are determined on a specific identification basis.

Accounts Receivable, net

Accounts receivable are reported for all clinical services payers based on the amount expected to be collected, which considers implicit price concessions. Implicit price concessions represent differences between amounts billed and the estimated consideration the Company expects to receive based on negotiated discounts, historical collection experience and other anticipated adjustments, including anticipated payer denials.

For Pharma Services, the Company negotiates billing schedules and payment terms on a contract-by-contract basis which can include payments based on certain milestones being achieved. Revenue is recognized over time based on the number of units completed, which generally aligns with the progress of the Company towards fulfilling its obligations under the contract.

Inventories

Inventories, which consist principally of testing supplies, are valued at lower of cost or net realizable value, using the first-in, first-out method. The Company periodically reviews its inventories for excess or obsolescence and writes-down obsolete or otherwise unmarketable inventories to their estimated net realizable value.

Other Current Assets

As of December 31, 2020 and 2019, other current assets consist primarily of pharma contract assets, capitalized commissions and non-trade receivables.

Property and Equipment, net

Property and equipment are recorded at cost, net of accumulated depreciation and amortization. Depreciation and amortization are computed on the straight-line basis over the estimated useful lives of the assets. Leasehold improvements are amortized over the shorter of the related lease terms or their estimated useful lives. Costs incurred in connection with the development of internal-use software are capitalized in accordance with the accounting standard for internal-use software, and are amortized over the expected useful life of the software, generally 1-10 years. The Company performs a fair value assessment on property and equipment acquired in a business combination and records the fair value as the basis for those assets.

The Company periodically reviews the estimated useful lives of property and equipment. Changes to the estimated useful lives are recorded prospectively from the date of the change. Upon retirement or sale, the cost of the assets disposed of and the related accumulated depreciation are removed from the accounts and any resulting gain or loss is included in income (loss) from operations. Repairs and maintenance costs are expensed as incurred and are included in general and administrative expenses or research and development (“R&D”) expenses, as appropriate.

Leases

The Company leases corporate offices and laboratory space throughout the world, all of which are classified as operating leases expiring at various dates and generally have terms ranging from 1 to 15 years. Leases with an initial term of 12 months or less are not recorded on the balance sheet.

Some of the Company’s real estate lease agreements include options to either renew or early terminate the lease. Leases with renewal options allow the Company to extend the lease term typically between 1 and 5 years. When it is reasonably certain that the Company will exercise an option to renew or terminate a lease, these options are considered in determining the classification and measurement of the lease.

Lease liabilities are recorded based on the present value of the future lease payments over the lease term and assessed as of the commencement date. Incentives received from landlords, such as reimbursements for tenant improvements and rent abatement periods, effectively reduce the total lease payments owed for leases.

Certain real estate leases also include executory costs such as common area maintenance (non-lease component), as well as property insurance and property taxes (non-components). Lease payments, which may include lease components, non-lease components and non-components, are included in the measurement of the Company’s lease liabilities to the extent that such payments are either fixed amounts or variable amounts based on a rate or index (fixed in substance) as stipulated in the lease contract. Any actual costs in excess of such amounts are expensed as incurred as variable lease cost.

The Company utilizes its incremental borrowing rate by lease term in order to calculate the present value of its future lease payments when the implicit rates in the leases agreements are not readily determinable. The discount rate represents a risk-adjusted rate on a secured basis, and is the rate at which the Company would borrow funds to satisfy the scheduled lease liability payment streams commensurate with the lease term. On January 1, 2019, the discount rate used for existing leases at adoption was determined based on the remaining lease term using available data as of that date.

Operating lease costs represent fixed lease payments recognized on a straight-line basis over the lease term. Operating lease costs include an immaterial amount of variable lease costs, and are recorded in cost of revenue, general and administrative, sales and marketing and R&D expenses, depending on the nature of the leased asset on the Consolidated Statements of Operations.

Intangible Assets, net

Intangible assets with determinable useful lives are recorded initially at acquired fair value or cost, less accumulated amortization. Each intangible asset with a determinable useful life is amortized over its estimated useful life using the straight-line method. The Company periodically reviews the estimated pattern in which the economic benefits will be consumed and adjusts the amortization period and pattern to match the estimate. Intangible assets with indefinite useful lives are recorded initially at fair value or cost and are tested annually for impairment. For the years ended December 31, 2020 and 2019, no impairment losses related to intangible assets with indefinite useful lives were recorded.

At December 31, 2020, the Company’s intangible assets were comprised of customer relationships and trademarks. At December 31, 2019, in addition to customer relationships and trademarks, the Company's intangible assets also included a trade name and non-complete agreement.

Goodwill

The Company evaluates goodwill on an annual basis in the fourth quarter or more frequently if management believes indicators of impairment exist. Such indicators could include, but are not limited to, (1) a significant adverse change in legal factors or in business climate, (2) unanticipated competition, or (3) an adverse action or assessment by a regulator. The Company first assesses qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount, including goodwill. If management concludes that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, management performs a quantitative goodwill impairment test. The quantitative analysis is performed by comparing the fair value of the reporting unit to its carrying value. If the carrying value is greater than the estimate of fair value, an impairment loss will be recognized for the amount in which the carrying amount exceeds the reporting unit's fair value. The Company estimates the fair values of its reporting units using a combination of the income, or discounted cash flows, approach and the market approach, which utilizes comparable companies’ data. For the years ended December 31, 2020, 2019 and 2018 the Company’s evaluation of goodwill resulted in no impairment losses.

Recoverability and Impairment of Long-Lived Assets

The Company reviews the recoverability of its long-lived assets (including definite-lived intangible assets) if events or changes in circumstances indicate the assets may be impaired. Evaluation of possible impairment is based on the Company’s ability to recover the asset from the expected future pretax cash flows (undiscounted and without interest charges) of the related operations. If the expected undiscounted pretax cash flows are less than the carrying amount of such asset, an impairment loss is recognized for the difference between the estimated fair value and carrying amount of the asset. For the years ended December 31, 2020, 2019 or 2018, no impairment losses were recognized.

Debt Issuance Costs

Debt issuance costs related to convertible senior notes are recorded as deductions that net against the principal value of the debt and are amortized as interest expense over the life of the debt using the effective interest method. Debt issuance costs related to term loans are recorded as direct deductions from the carrying amount of the term loan and are amortized to interest expense over the life of the debt using the effective interest method. Debt issuance costs relating to line of credit arrangements are recorded as assets and amortized over the term of the credit arrangement regardless of whether any outstanding borrowing existed. The term loan and line of credit were terminated in 2020 and all debt issuance costs were expensed accordingly. See Note 9. Debt, for further information on debt issuance costs.

Derivative Instruments and Hedging Activities

Derivative instruments are recorded on the balance sheet as either an asset or liability and measured at fair value. Additionally, changes in the derivative’s fair value are recognized currently in earnings unless specific hedge accounting criteria are met. Prior to the termination of the term loan the Company used derivative instruments to manage risks related to interest expense.

See Note 10. Derivative Instruments and Hedging Activities, for further information on derivative instruments and hedging activities.

Stock-Based Compensation

The Company measures compensation expense for stock-based awards to employees, non-employee contracted physicians, and directors based upon the awards' initial grant-date fair value. The estimated grant-date fair value of the award is recognized as expense over the requisite service period using the straight-line method.

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

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

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

Expected Stock Price Volatility: The Company uses its own historical weekly volatility because that is more reflective of market conditions.

Dividend Yield: Because the Company has never paid a dividend and does not expect to begin doing so in the foreseeable future, the Company assumed no dividend yield in valuing the stock-based awards.

Revenue Recognition

Clinical Services

The Company's specialized diagnostic services are performed based on a written test requisition form or electronic equivalent. The performance obligation is satisfied and revenues are recognized at the point in time the diagnostic services have been performed and the results have been delivered to the ordering physician. These diagnostic services are billed to various payers, including Medicare, commercial insurance companies, other directly billed healthcare institutions such as hospitals and clinics, and individuals. Revenue is recorded for all payers based on the amount expected to be collected, which considers implicit price concessions. Implicit price concessions represent differences between amounts billed and the estimated consideration the Company expects to receive based on negotiated discounts, historical collection experience and other anticipated adjustments, including anticipated payer denials. Collection of consideration the Company expects to receive typically occurs within 30 to 60 days of billing for commercial insurance, Medicare and other governmental and self-pay payers and within 60 to 90 days of billing for client payers.

Pharma Services

The Company's Pharma Services segment generally enters into contracts with pharmaceutical and biotech customers as well as other Clinical Research Organizations ("CROs") to provide research and clinical trial services ranging in duration from one month to several years. The Company records revenue on a unit-of-service basis based on number of units completed and the total expected contract value. The total expected contract value is estimated based on historical experience of total contracted units compared to realized units as well as known factors on a specific contract-by-contract basis. Certain contracts include upfront fees, final settlement amounts or billing milestones that may not align with the completion of performance obligations. The value of these upfront fees or final settlement amounts is recognized over time based on the number of units completed, which aligns with the progress of the Company towards fulfilling its obligations under the contract.

The Company also enters into other contracts, such as validation studies and informatics. Revenue for validation studies for which the sole deliverable may be a final report that is sent to sponsors at the completion of contracted activities, is recognized at a point in time upon delivery of the final report to the sponsor. Informatics is the sale of de-identified data for which deliverables typically consist of retrospective records or prospective deliveries of data. Informatics revenue is recognized upon delivery of retrospective data or over time for prospective data feeds. Any contracts that contain multiple performance obligations and include both units-of-service and point in time deliverables are accounted for as separate performance obligations and revenue is recognized as previously disclosed. The Company negotiates billing schedules and payment terms on a contract-by-contract basis. While the contract terms generally provide for payments based on a unit-of-service arrangement, the billing schedules, payment terms and related cash payments may not align with the performance of services and, as such, may not correspond to revenue recognized in any given period.

Amounts collected for services provided in advance of revenue being recognized are deferred as contract liabilities. The associated revenue is recognized and the contract liability is reduced as the contracted services are subsequently recognized. Contract assets are established for revenue that has been recognized but not yet billed. These contract assets are reduced once the customer is invoiced and a corresponding account receivable is recorded. Additionally, certain costs to obtain contracts, primarily for sales commissions, are capitalized when incurred and are amortized over the term of the contract. Amounts capitalized for contracts with an initial contract term of twelve months or less are classified as current assets and all others are classified as non-current assets. Contract assets are included in other current assets and other assets on the Consolidated Balance Sheets.

Most contracts are terminable by the customer, either immediately or according to advance notice terms specified within the contracts. All contracts require payment of fees to the Company for services rendered through the date of termination and may require payment for subsequent services necessary to conclude the study or close out the contract.

Cost of Revenue

Cost of revenue includes payroll and payroll related costs for performing tests, depreciation of laboratory equipment, rent for laboratory facilities, laboratory reagents, probes and supplies, and delivery and courier costs relating to the transportation of specimens to be tested. These expenses related to shipping specimens to the facilities for testing, includes costs incurred for contract couriers, commercial airline flights and FedEx Corporation charges. The Company also incurs expenses returning samples and slides to its customers. For the years ended December 31, 2020, 2019 and 2018, the Company recorded approximately $13.8 million, $14.2 million and $9.8 million in shipping expenses, respectively.

General and Administrative Expenses

General and administrative expenses consist of payroll and payroll related costs for our billing, finance, human resources, information technology and other administrative personnel as well as stock-based compensation. The Company also allocates professional services, facilities expense, IT infrastructure costs, depreciation, amortization and other administrative-related costs to general and administrative expenses.

Research and Development Expenses

R&D costs are expensed as incurred. R&D expenses consist of payroll and payroll related costs, laboratory supplies, and costs for samples to complete validation studies. These expenses are primarily incurred to develop new genetic tests.

Sales and Marketing Expenses

Sales and marketing expenses are primarily attributable to employee-related costs including sales management, sales representatives, sales and marketing consultants and marketing and customer service personnel. Advertising costs are expensed at the time they are incurred and are deemed immaterial for the years ended December 31, 2020, 2019 and 2018.

Income Taxes

Deferred taxes are recognized for the tax consequences of temporary differences by applying enacted statutory rates applicable to future years to differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities. Also, the effect on deferred taxes of a change in tax rates is recognized in income in the period that included the enactment date. Temporary differences between financial and tax reporting arise primarily from the use of different depreciation methods and lives for property and equipment, recognition of bad debts, compensation related expenses and various other expenses that have been allowed for or accrued for financial statement purposes but are not currently deductible for income tax purposes.

The provision for income taxes, including the effective tax rate and analysis of potential tax exposure items, if any, requires significant judgment and expertise in federal and state income tax laws, regulations and strategies, including the determination of deferred tax assets and liabilities and any estimated valuation allowances deemed necessary to recognize deferred tax assets at an amount that is more likely than not to be realized. The Company evaluates tax positions that have been taken or are expected to be taken in its tax returns, and records a liability for uncertain tax positions, if deemed necessary. The Company follows a two-step approach to recognizing and measuring uncertain tax positions. First, tax positions are recognized if the weight of available evidence indicates that it is more likely than not that the position will be sustained upon examination, including resolution of related appeals or litigation processes, if any. Second, the tax position is measured as the largest amount of tax benefit that has a greater than 50% likelihood of being realized upon settlement.

The Company recognizes interest and penalties related to unrecognized tax benefits in the provision for income taxes in the accompanying Consolidated Balance Sheets. At December 31, 2020 the Company had an uncertain tax position related to Federal and State R&D tax credits, including a provision for interest and penalties related to such position. At December 31, 2019, the Company had an insignificant amount on its Consolidated Balance Sheets related to uncertain tax positions. At

December 31, 2018, the Company had an uncertain tax position related to the deductibility of certain accrued compensation. The Company does not expect a significant change in its uncertain tax positions in the next 12 months.

Net Income per Common Share

The Company has adopted the two class method of calculating earnings per share, due to the issuance of the Series A Preferred Stock in December 2015. Under this method, when the Company has a net loss the Company will not allocate the net loss to the holders of the Series A Preferred Stock (participating shareholders) as they do not have a contractual obligation to share in losses. Under this method, when the Company has net income, the Company will compute net income per share using the weighted average number of common shares outstanding during the applicable period plus the weighted average number of preferred shares outstanding during the period.

Diluted net income per share is computed using the weighted average number of common shares outstanding during the applicable period, plus the dilutive effect of potential common stock. Potential common stock consists of shares issuable pursuant to stock options and convertible notes as well as nonvested restricted stock awards which are not considered outstanding with respect to the weighted average common shares outstanding in the calculation of basic net income per share. Potentially dilutive shares are determined by applying the treasury stock method to the Company's outstanding stock options and restricted stock awards. Potentially dilutive shares issuable upon conversion of the 1.25% Convertible Senior Notes due 2025 are calculated using the if-converted method.

Recently Adopted Accounting Pronouncements

In August 2018, the FASB issued ASU No. 2018-15, *Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*, which changes the accounting for implementation costs incurred in a cloud computing arrangement that is a service contract. The update aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. The implementation costs should be presented accordingly as other assets, current and non-current on the balance sheet and expensed over the term of the hosting arrangement. The Company adopted this pronouncement on January 1, 2020 and the impact was not material to the Company's Consolidated Financial Statements.

In August 2018, the FASB issued ASU No. 2018-13, *Fair Value Measurement: Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement*, which adds and modifies certain disclosure requirements for fair value measurements. Under the new guidance, entities will no longer be required to disclose the amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy, or valuation processes for Level 3 fair value measurements. However, public companies are required to disclose the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements, and related changes in unrealized gains and losses included in other comprehensive income. The Company adopted this pronouncement on January 1, 2020 and the impact was not material to the Company's Consolidated Financial Statements.

In November 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash* ("ASU 2016-18"). The new guidance requires that the reconciliation of the beginning-of-period and end-of-period amounts shown in the statement of cash flows include cash, cash equivalents and restricted cash. ASU 2016-08 was effective for fiscal years beginning after December 15, 2017, including interim periods within those periods, using a retrospective transition method to each period presented. As a result, restricted cash of $21.9 million as of December 31, 2020 is included in cash and cash equivalents when reconciling the beginning and ending balances on the Consolidated Statements of Cash Flows. See Note 5. Leases, for additional information regarding the use of restricted cash. There were no restricted cash balances as of December 31, 2019 or 2018.

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments – Credit Losses (Topic 326)*: *Measurement of Credit Losses on Financial Instruments,* as modified by subsequently issued ASUs 2018-19 (issued November 2018), 2019-04 (issued April 2019), 2019-05 (issued May 2019), 2019-11 (issued November 2019), 2020-02 (issued February 2020) and 2020-03 (issued March 2020) ("ASU 2016-13") which modifies the measurement and recognition of credit losses for most financial assets and certain other instruments. The standard was effective January 1, 2020 and requires the use of forward-looking expected credit loss models based on historical experience, current economic conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount, which may result in earlier recognition of credit losses under the new standard. It also requires that credit losses related to available-for-sale debt securities be recorded as an allowance through net income rather than reducing the carrying amount under the current, other-than-temporary-impairment model. The standard required a modified retrospective approach with a cumulative effect adjustment to retained earnings. The Company adopted the standard as of January 1, 2020. Based on management's analysis, upon adoption ASU 2016-13 is applicable to the Company's trade receivables as well as contract assets recognized within the Pharma Services segment. An assessment was performed on historical trends, current economic conditions, supportable forecasts, and customer and credit risks. The adoption of ASU 2016-13 did not result in a material impact on the Company's Consolidated Financial Statements.

Accounting Pronouncements Pending Adoption

In March 2020, the FASB issued ASU No. 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting* ("ASU 2020-04") which provides for temporary optional expedients and exceptions to the current guidance on certain contract modifications and hedging relationships to ease the burdens related to the expected market transition from the London Inter-bank Offered Rate ("LIBOR") or other reference rates to alternative reference rates. In January 2021, the FASB issued ASU No. 2021-01, *Reference Rate Reform (Topic 848)* ("ASU 2021-01") to clarify that certain optional expedients and exceptions apply to modifications of derivative contracts and certain hedging relationships affected by changes in the interest rates used for discounting cash flows, computing variation margin settlements, and for calculating price alignment interest. ASU 2020-04 is effective beginning on March 12, 2020 and may be applied prospectively to such transactions through December 31, 2022 and ASU 2021-01 is effective beginning on January 7, 2021 and may be applied retrospectively or prospectively to such transactions through December 31, 2022. The Company will evaluate transactions or contract modifications occurring as a result of reference rate reform and determine whether to apply the optional guidance on an ongoing basis. As of December 31, 2020, there was no impact to the Company's Consolidated Financial Statements related to ASU 2020-04 or ASU 2021-01.

In October 2020, the FASB issued ASU No. 2020-10, *Codification Improvements*, which updates various codification topics by clarifying disclosure requirements to align with the SEC's regulations. The Company will adopt this pronouncement on January 1, 2021 and the impact of the provisions of this standard on its Consolidated Financial Statements is expected to be immaterial.

In August 2020, the FASB issued ASU No. 2020-06, *Debt - Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging - Contracts in Entity's Own Equity (Subtopic 815-40) - Accounting For Convertible Instruments and Contracts in an Entity's Own Equity* ("ASU 2020-06") which simplifies the accounting for certain financial instruments with characteristics of liabilities and equity, including convertible instruments and contracts in an entity's own equity. Among other changes, ASU 2020-06 simplifies the accounting for convertible instruments by removing the liability and equity separation model for convertible instruments with a cash conversion feature, and as a result, after adoption, entities will no longer separately present in equity an embedded conversion feature for such convertible debt instruments. Similarly, the debt discount, that is equal to the carrying value of the embedded conversion feature upon issuance, will no longer be amortized into income as interest expense over the life of the instrument. Instead, entities will account for a convertible debt instrument wholly as debt unless (1) a convertible instrument contains features that require bifurcation as a derivative under ASC Topic 815, *Derivatives and Hedging*, or (2) a convertible instrument was issued at a substantial premium. In addition, ASU 2020-06 requires the application of the if-converted method for calculating the impact of convertible instruments on diluted earnings per share. ASU 2020-06 is effective for fiscal years beginning after December 15, 2021, with early adoption permitted no earlier than fiscal years beginning after December 15, 2020. ASU 2020-06 can be adopted on either a fully retrospective or modified retrospective basis. The Company will adopt ASU 2020-06 on January 1, 2021 using the modified retrospective approach, and accordingly the Company will record an adjustment that reflects the 1.25% Convertible Senior Notes due 2025 as if the embedded conversion feature had not been separated. The estimated impact upon adoption on January 1, 2021 on the Consolidated Balance Sheets will include an increase of approximately $27 million in convertible senior notes, net, a write-off of approximately $7 million in deferred tax liabilities, and a decrease of approximately $23 million in additional paid-in capital. In addition, upon adoption on January 1, 2021, there will be an adjustment to the beginning balance of retained earnings on the Consolidated Balance Sheets for previously recognized interest expense, net of tax effects, of approximately $3 million for amortization of debt discount related to the carrying value of the embedded conversion feature upon issuance. Subsequently, the adoption of ASU 2020-06 is expected to reduce reported interest expense and, correspondingly, increase reported net income.

In January 2020, the FASB issued ASU No. 2020-01, *Investments-Equity Securities ("Topic 321"), Investments-Equity Method and Joint Ventures ("Topic 323") and Derivatives and Hedging ("Topic 815")* (collectively, "ASU 2020-01"). ASU 2020-01 clarifies the interaction of the accounting for equity securities under Topic 321, the accounting for the equity method investments in Topic 323 and the accounting for certain forward contracts and purchased options in Topic 815. ASU 2020-01 is effective for fiscal years beginning after December 15, 2020 on a prospective basis and early adoption is permitted. The Company will adopt ASU 2020-01 on January 1, 2021 and the impact of the provisions of this standard on its Consolidated Financial Statements is expected to be immaterial.

In December 2019, the FASB issued ASU No. 2019-12, *Income Taxes: Simplifying the Accounting for Income Taxes ("Topic 740")*, which simplifies the accounting for income taxes, eliminates certain exceptions within Topic 740 and clarifies certain other aspects of the current guidance to promote consistency among reporting entities. The new standard is effective for fiscal years beginning after December 15, 2020 on a prospective basis and early adoption is permitted. The Company will adopt this pronouncement on January 1, 2021 and the impact of the provisions of this standard on its Consolidated Financial Statements is expected to be immaterial.

Note 3. Fair Value Measurements

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs. A fair value hierarchy has been established based on three levels of inputs, of which the first two are considered observable and the last unobservable.

Level 1: Quoted prices in active markets for identical assets or liabilities. These are typically obtained from real-time quotes for transactions in active exchange markets involving identical assets.

Level 2: Inputs, other than quoted prices included within Level 1, which are observable for the asset or liability, either directly or indirectly. These are typically obtained from readily-available pricing sources for comparable instruments.

Level 3: Unobservable inputs, where there is little or no market activity for the asset or liability. These inputs reflect the reporting entity's own assumptions of the data that market participants would use in pricing the asset or liability, based on the best information available in the circumstances.

Assets and Liabilities that are Measured at Fair Value on a Recurring Basis

The Company measures certain financial assets at fair value on a recurring basis, including its marketable securities and certain cash equivalents. The money market accounts are valued based on quoted market prices in active markets. The marketable securities are generally valued based on other observable inputs for those securities (including market corroborated pricing or other models that utilize observable inputs such as interest rates and yield curves) based on information provided by independent third-party pricing entities, except for U.S. Treasury securities which are valued based on quoted market prices in active markets.

The following table sets forth the amortized cost, gross unrealized gains, gross unrealized losses and fair values of the Company's marketable securities accounted for as available-for-sale securities as of or for the year ended December 31, 2020. There were no such amounts as of or for the year ended December 31, 2019.

	December 31, 2020			
(in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Financial Assets:				
Short-term marketable securities:				
U.S. Treasury securities	$ 21,357	$ 1	$ (18)	$ 21,340
Commercial paper	14,543	—	—	14,543
Asset-backed securities	14,546	—	(8)	14,538
Corporate bonds	17,144	—	(19)	17,125
Total	$ 67,590	$ 1	$ (45)	$ 67,546

The Company had $0.2 million of accrued interest receivable at December 31, 2020 included in other assets on its Consolidated Balance Sheets related to its marketable securities. The amount of realized gains and realized losses were immaterial for the year ended December 31, 2020. There were no such amounts at December 31, 2019.

The following table sets forth the fair value of available-for-sale marketable securities by contractual maturity at December 31, 2020. There were no such amounts as of or for the year ended December 31, 2019.

(in thousands)	December 31, 2020			
	One Year or Less	Over One Year Through Five Years	Over Five Years	Total
Financial Assets:				
Marketable Securities:				
U.S. Treasury securities	$ 6,075	$ 15,265	$ —	$ 21,340
Commercial paper	14,543	—	—	14,543
Asset-backed securities	560	13,978	—	14,538
Corporate bonds	5,863	11,262	—	17,125
Total	$ 27,041	$ 40,505	$ —	$ 67,546

The following table sets forth the Company's cash equivalents and marketable securities accounted for as available-for-sale securities that were measured at fair value on a recurring basis based on the fair value hierarchy as of December 31, 2020. As of December 31, 2019, the Company had money market fund cash equivalents (Level 1) in the amount of $163.8 million.

(in thousands)	December 31, 2020			
	Level 1	Level 2	Level 3	Total
Financial Assets:				
Cash equivalents:				
Money market funds	$ 209,141	$ —	$ —	$ 209,141
U.S. Treasury securities	1,000	—	—	1,000
Commercial paper	—	3,999	—	3,999
Marketable securities:				
U.S. Treasury securities	21,340	—	—	21,340
Commercial paper	—	14,543	—	14,543
Asset-backed securities	—	14,538	—	14,538
Corporate bonds	—	17,125	—	17,125
Total	$ 231,481	$ 50,205	$ —	$ 281,686

There were no transfers of financial assets or liabilities into or out of Level 1, Level 2, or Level 3 for the years ended December 31, 2020 and 2019.

Assets and Liabilities that are Measured at Fair Value on a Nonrecurring Basis

The carrying value of cash, certain cash equivalents, accounts receivable, net, other current assets, accounts payable, accrued expenses and other liabilities, and Pharma contract liabilities are considered reasonable estimates of their respective fair values at December 31, 2020 and December 31, 2019 due to their short-term nature.

The Company also measures certain non-financial assets at fair value on a nonrecurring basis, primarily intangible assets, goodwill, long-lived assets, and investment in non-consolidated affiliate. The Company estimates the fair value of these assets using primarily unobservable inputs and, as such, these are considered Level 3 fair value measurements.

Note 4. Property and Equipment, Net

Property and equipment consisted of the following at December 31, 2020 and 2019 (in thousands):

	2020	2019	Estimated Useful Lives in Years
Equipment	$ 73,234	$ 49,633	1-13
Building	7,400	7,400	40
Leasehold improvements	27,688	23,683	1-17
Furniture and fixtures	7,425	5,858	1-9
Computer hardware and office equipment	22,843	15,280	1-10
Computer software	30,718	20,806	1-10
Land	3,170	3,170	—
Construction in progress	6,290	7,167	—
Subtotal	178,768	132,997	
Less: accumulated depreciation	(92,895)	(68,809)	
Property and equipment, net	$ 85,873	$ 64,188	

Depreciation expense on property and equipment in each year was as follows (in thousands):

	For the Years Ended December 31,		
	2020	2019	2018
Depreciation expense	$ 25,904	$ 20,346	$ 15,804

On the Consolidated Statements of Operations, the Company recorded depreciation expense as follows: $15.3 million, $9.4 million and $8.2 million was recorded in cost of revenue for the years ended December 31, 2020, 2019 and 2018, respectively, $10.4 million, $10.8 million and $7.6 million was recorded in general and administrative expenses for the years ended December 31, 2020, 2019 and 2018, respectively, and $0.2 million, $0.1 million, and $0 was recorded in R&D expense for the years ended December 31, 2020, 2019 and 2018, respectively.

Note 5. Leases

As of December 31, 2020, the maturities of the operating lease liabilities and a reconciliation to the present value of lease liabilities were as follows (in thousands):

	Remaining Lease Payments
2021	$ 7,124
2022	5,590
2023	5,461
2024	5,520
2025	3,397
Thereafter	34,230
Total remaining lease payments	61,322
Less: imputed interest	(14,059)
Total operating lease liabilities	47,263
Less: current portion	(4,967)
Long-term operating lease liabilities	$ 42,296
Weighted-average remaining lease term (in years)	11.76
Weighted-average discount rate	4.4 %

The following summarizes additional supplemental data related to the operating leases (in thousands):

	For the Years Ended December 31,	
	2020	2019
Operating lease costs	$ 8,371	$ 6,060

	For the Years Ended December 31,	
	2020	2019
Right-of-use assets obtained in exchange for operating lease liabilities	$ 25,461	$ 21,091
Cash paid for operating leases	$ 7,116	$ 5,940

Lease contracts that have been executed but have not yet commenced are excluded from the tables above. As of December 31, 2020, the Company has entered into $33.8 million of contractually binding minimum lease payments for a lease executed but not yet commenced. This amount relates to the lease of the laboratory and headquarters facility in Fort Myers, Florida that is expected to commence in 2021. In addition to the minimum lease payments, the Company will pay approximately $25 million relating to the construction of the underlying assets and approximately $17 million in leasehold improvements. These amounts were placed into separate construction disbursement escrow accounts and as of December 31, 2020, $21.9 million was unpaid and remaining in restricted cash on the Consolidated Balance Sheets. Disbursements to the landlord take place from time to time to pay for the costs of the landlord's work. The disbursements are classified as a prepaid lease asset or leasehold improvements, as appropriate, until the lease commences. Upon lease commencement, the prepaid lease asset will be included in the calculation of the right-of-use asset and the leasehold improvements will be placed in service. Construction of the infrastructure of this facility commenced in the first quarter of 2020. The Company is not expected to control the underlying assets during the construction period and therefore is not considered the owner of the underlying assets for accounting purposes.

Note 6. Acquisition

Human Longevity, Inc.

On January 10, 2020 (the "Acquisition Date"), the Company acquired the Oncology Division assets of Human Longevity, Inc. ("HLI - Oncology") for a purchase price of $37 million in cash. Acquisition and integration costs related to HLI - Oncology were approximately $1.6 million for the year ended December 31, 2020, and are reported as general and administrative expenses in the Company's Consolidated Statements of Operations.

HLI - Oncology performs Next-Generation Sequencing for pharmaceutical customers. The acquisition of HLI - Oncology adds whole exome and whole genome sequencing capabilities to the Company's current Pharma Services offerings. Revenue related to HLI - Oncology is reported in the Pharma Services segment. The acquisition included assets, primarily consisting of lab equipment, inventory, maintenance agreements for acquired equipment, backlog contracts with HLI - Oncology's customers, as well as HLI - Oncology's molecular workforce that is experienced with Next-Generation Sequencing.

The Company has finalized its valuation of the purchase price and purchase price allocation. The following table summarizes the fair values of the assets acquired and liabilities assumed at the Acquisition Date (in thousands):

	January 10, 2020 (As Initially Reported)	Measurement Period and Other Adjustments	January 10, 2020 (As Adjusted)
Inventory	$ 534	$ —	$ 534
Prepaid assets	185	—	185
Property and equipment	16,839	—	16,839
Internally developed software	3,110	20	3,130
Customer relationships[1]	4,100	(270)	3,830
Long-term assets	346	—	346
Goodwill[2]	12,232	250	12,482
Total assets acquired	$ 37,346	$ —	$ 37,346
Long-term liabilities	(346)	—	(346)
Net assets acquired	$ 37,000	$ —	$ 37,000

[1] Acquired intangible assets consist of customer relationships which are amortized over seven years.

(2) The goodwill arising from the acquisition of HLI - Oncology is the amount the Company paid in excess of the fair value of the net assets acquired and was primarily for (i) the expected future cash flows derived from the existing business capabilities and infrastructure, (ii) expanding the Company's scientific expertise as a leading provider of Pharma Services and Next-Generation Sequencing and (iii) an enhanced Pharma Services menu including germline, whole exome and whole genome sequencing. All of the goodwill resulting from the acquisition of HLI - Oncology is expected to be deductible for income tax purposes.

Note 7. Goodwill and Intangible Assets

As a result of the acquisition of HLI - Oncology in January 2020, the Company recorded $12.5 million in goodwill, including amounts for measurement period and other adjustments. See Note 6. Acquisition, for further information regarding the HLI - Oncology acquisition.

The following table summarizes the changes in goodwill as of December 31, 2020 and 2019 (in thousands):

	December 31,	
	2020	2019
Balance, beginning of year	$ 198,601	$ 197,892
Goodwill acquired	12,482	—
Purchase price adjustment	—	709
Balance, end of year	$ 211,083	$ 198,601

The following table summarizes the allocation of goodwill by segment as of December 31, 2020 and 2019 (in thousands):

	Clinical Services 2020	Pharma Services 2020	Total 2020	Clinical Services 2019	Pharma Services 2019	Total 2019
Goodwill	$ 179,534	$ 31,549	$ 211,083	$ 179,534	$ 19,067	$ 198,601

Intangible assets consisted of the following (in thousands):

		December 31, 2020		
	Amortization Period	Cost	Accumulated Amortization	Net
Customer Relationships	84-180 months	143,101	35,895	107,206
Trademark - Indefinite lived	—	13,447	—	13,447
Total		$ 156,548	$ 35,895	$ 120,653

		December 31, 2019		
	Amortization Period	Cost	Accumulated Amortization	Net
Trade Name	12-24 months	$ 3,679	$ 3,679	$ —
Non-Compete Agreement	24 months	27	27	—
Customer Relationships	180 months	139,271	26,078	113,193
Trademark - Indefinite lived	—	13,447	—	13,447
Total		$ 156,424	$ 29,784	$ 126,640

The Company recorded amortization expense of intangible assets within general and administrative expenses on the Consolidated Statements of Operations as follows (in thousands):

	For the Years Ended December 31,		
	2020	2019	2018
Amortization of intangible assets	$ 9,817	$ 9,925	$ 5,928

The estimated amortization expense related to amortizable intangible assets for each of the five succeeding fiscal years and thereafter as of December 31, 2020 is as follows (in thousands):

For the Years Ending December 31,	
2021	$ 9,832
2022	9,832
2023	9,832
2024	9,832
2025	9,832
Thereafter	58,046
Total	$ 107,206

Note 8. Investment in Non-Consolidated Affiliate

On May 22, 2020, the Company formed a strategic alliance with Inivata Limited, a company incorporated in England and Wales ("Inivata"), and entered into a Strategic Alliance Agreement and Laboratory Services Agreement with Inivata's laboratory subsidiary in the U.S., Inivata, Inc., whereas Inivata's laboratory will render and perform certain laboratory testing which the Company will make available to customers. The terms and conditions of the Laboratory Services Agreement are consistent with those that would be negotiated between willing parties on an arm's length basis. Transactions between the Company and Inivata as of and for the year ended December 31, 2020 were immaterial. There were no transactions between the Company and Inivata as of and for each of the years ended December 31, 2019 and 2018.

In addition to the Laboratory Services Agreement, the Company also entered into an Investment Agreement with Inivata (the "Investment Agreement"), pursuant to which the Company acquired Series C1 Preference Shares (the "Preference Shares") for $25 million in cash (the "Investment") resulting in a minority interest in Inivata's outstanding equity and an Option Deed which provides the Company with an option to purchase Inivata (the "Purchase Option"). The Investment Agreement also granted the Company one seat on Inivata's Board of Directors.

Inivata is a VIE and the Company's investment is under 20% of the total equity outstanding. The Company considers qualitative factors in assessing the primary beneficiary of the VIE which include understanding the purpose and design of the VIE, associated risks that the VIE creates, activities that could be directed by the Company, and the expected relative impact of those activities on the economic performance of the VIE. Based on an evaluation of these factors, the Company concluded that it is not the primary beneficiary of Inivata.

The power to control the activities that most significantly impact Inivata's economic performance are the sole responsibility of Inivata's management and Board of Directors; however, the Company does have significant influence over Inivata. As the Preference Shares were determined to not be in-substance common stock, and because the Preference Shares and the Purchase Option do not have readily determinable fair values, the Company has elected to measure the Preference Shares and the Purchase Option at cost, minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer.

The initial $25 million cost and $0.6 million of associated transaction costs for the Investment was allocated between the Preference Shares and the Purchase Option based on the relative fair value of each and was recorded as "Investment in non-consolidated affiliate" on the Consolidated Balance Sheets. The initial relative fair value of the investment in non-consolidated affiliate was comprised of $19.6 million in Preference Shares and a $6 million Purchase Option. The Preference Shares were valued by determining the equity value of Inivata using the Backsolve Method and allocating the value of the Preference Shares using the Option-Pricing Method and the inputs used included the equity value based on the Series C1 capital raised by Inivata, a volatility rate of 84%, a risk-free interest rate of 0.17% and 0% dividend yield. The Purchase Option was valued using the Black-Scholes model with a volatility rate of 84%, a risk-free interest rate of 0.17% and 0% dividend yield. The initial fair value of the Preference Shares and Purchase Option are classified as Level 3 in the fair value hierarchy due to unobservable inputs as there is no public market activity available to value these investments.

During the fourth quarter of 2020, an observable transaction of an identical investment in Inivata Preference Shares occurred. This resulted in a remeasurement of the Preference Shares to the value of this observable transaction. The Purchase Option was also remeasured at fair value as a result of this observable transaction. As a result of these remeasurements, at December 31, 2020, the carrying value of the investment in non-consolidated affiliate is $29.6 million, comprised of $25 million in Preference Shares and a $4.6 million Purchase Option. The Company recorded a net unrealized gain of $4 million for these remeasurements for the year ended December 31, 2020 in "Other (income) expense" on the Consolidated Statements of Operations. At December 31, 2020, the Purchase Option was valued using the Black-Scholes model with a volatility rate of 84%, a risk-free interest rate of 0.17% and 0% dividend yield. As of December 31, 2020, the fair value of the Preference Shares and Purchase Option are classified as Level 3 in the fair value hierarchy due to unobservable inputs as there is no public market activity available to value these investments.

The Company and Inivata also entered into a line of credit agreement in the amount of $15 million (the "Line of Credit"). In January 2021, the Line of Credit, in its entirety, was drawn by Inivata and has a maturity date of December 1, 2025. The Line of Credit bears interest at 0% per annum and the unpaid principal balance is payable on January 1, 2026. The Line of Credit is subject to evaluation for current expected credit losses. The impact of such losses were determined to be immaterial for the year ended December 31, 2020.

At December 31, 2020, the maximum exposure to losses does not exceed the carrying amount of the investment combined with the contractual obligation to fund to Line of Credit.

Note 9. Debt

The following table summarizes long-term debt, net, at December 31, 2020 and 2019 (in thousands):

	2020	2019
1.25% Convertible Senior Notes due 2025		
Principal	$ 201,250	$ —
Unamortized debt discount	(32,592)	—
Unamortized debt issuance costs	(538)	—
Total 1.25% Convertible Senior Notes due 2025, net	168,120	—
Term loan		
Principal	$ —	$ 97,500
Unamortized debt issuance costs	—	(671)
Total term loan, net	$ —	$ 96,829
Equipment financing obligations	$ 3,808	$ 8,631
Total debt	$ 171,928	$ 105,460
Less: Current portion of long-term debt	—	(5,000)
Less: Current portion of equipment financing obligations	(2,841)	(5,432)
Total long-term debt, net	$ 169,087	$ 95,028

At December 31, 2020, the estimated fair value (Level 2) of the 1.25% Convertible Senior Notes due 2025 was $320.9 million. At December 31, 2020 and 2019, the carrying value of the Company's equipment financing obligations approximated fair value based on the current market conditions for similar instruments. At December 31, 2019, the carrying value of the Company's term loan approximated fair value based on the current market conditions for similar instruments.

2025 Convertible Senior Notes

On May 4, 2020 (the "Closing Date"), the Company completed the sale of $201.3 million of convertible senior notes with a stated interest rate of 1.25% and a maturity date of May 1, 2025 (the "2025 Convertible Notes"), unless earlier converted, redeemed, or repurchased. The 2025 Convertible Notes were issued at a discounted price of 97% of their principal amount. The total net proceeds from the issuance of the 2025 Convertible Notes and exercise of the Over-allotment Option were approximately $194.5 million, which includes approximately $6.9 million of discounts, commissions and offering expenses paid by the Company. On May 4, 2020, the Company entered into an indenture (the "Indenture"), with U.S. Bank National Association, as trustee (the "Trustee"), governing the 2025 Convertible Notes.

Prior to February 1, 2025, noteholders may convert their 2025 Convertible Notes at their option, only in the following circumstances: (1) during any calendar quarter commencing after the calendar quarter ending on September 30, 2020 (and only during such calendar quarter), if the last reported sale price of the common stock for at least 20 trading days (whether or not consecutive) during a period of 30 consecutive trading days ending on, and including, the last trading day of the immediately preceding calendar quarter is greater than or equal to 130% of the conversion price on each applicable trading day; (2) during the five business day period after any five consecutive trading day period in which the trading price per $1,000 principal amount of 2025 Convertible Notes for each trading day of the measurement period was less than 98% of the product of the last reported sale price of the Company's common stock and the conversion rate on each such trading day; (3) if the Company calls any or all of the notes for redemption, at any time prior to the close of business on the scheduled trading day immediately preceding the redemption date; or (4) upon the occurrence of specified corporate events. On or after February 1, 2025 until the close of business on the business day immediately preceding the maturity date, noteholders may convert their 2025 Convertible Notes at any time, regardless of the foregoing circumstances.

Upon conversion, the Company will pay or deliver, as applicable, cash, shares of common stock or a combination of cash and shares of common stock, at its election. The initial conversion rate for the 2025 Convertible Notes is 27.5198 shares of common stock per $1,000 in principal amounts of 2025 Convertible Notes, equivalent to an initial conversion price of approximately $36.34 per share of common stock. The conversion rate is subject to adjustment as described in the Indenture. In addition, following certain corporate events that occur prior to the maturity date as described in the Indenture, the Company will pay a make-whole premium by increasing the conversion rate for a holder who elects to convert its 2025 Convertible Notes in

connection with such a corporate event in certain circumstances. The value of the 2025 Convertible Notes, if-converted, exceeds its principal amount by $96.9 million based on a closing stock price of $53.84 on December 31, 2020. For the year ended December 31, 2020 the Company excluded 3,722,504 shares in diluted weighted average common shares outstanding for the if-converted impact of the 2025 Convertible Notes from the diluted net income per share calculation as the shares would have an anti-dilutive effect. See Note 16. Net Income Per Share, for further details on the impact of the 2025 Convertible Notes on net income per share.

The Company may not redeem the 2025 Convertible Notes prior to May 6, 2023. The Company may redeem for cash all or any portion of the 2025 Convertible Notes, at its option, on or after May 6, 2023 if the last reported sale price of its common stock has been at least 130% of the conversion price then in effect for at least 20 trading days (whether or not consecutive) during any 30 consecutive trading day period (including the last trading day of such period) ending on, and including, the trading day immediately preceding the date of notice by the Company of redemption at a redemption price equal to 100% of the principal amount of the 2025 Convertible Notes to be redeemed, plus accrued and unpaid interest to, but excluding, the redemption date. No sinking fund is provided for the 2025 Convertible Notes.

If an event involving bankruptcy, insolvency or reorganization events with respect to the Company occurs, then the principal amount of, and all accrued and unpaid interest on, all of the 2025 Convertible Notes then outstanding will immediately become due and payable. If any other default event occurs and is continuing, then noteholders of at least 25% of the aggregate principal amount of the 2025 Convertible Notes then outstanding, by notice to the Company, may declare the principal amount of, and all accrued and unpaid interest on, all of the 2025 Convertible Notes then outstanding to become due and payable immediately. If the Company undergoes a “fundamental change” as defined in the Indenture, then noteholders may require the Company to repurchase their 2025 Convertible Notes at a cash repurchase price equal to the principal amount of the 2025 Convertible Notes to be repurchased, plus accrued and unpaid interest, if any, to, but excluding, the fundamental change repurchase date.

The 2025 Convertible Notes are the Company’s senior, unsecured obligations and will be equal in right of payment with its existing and future senior, unsecured indebtedness, senior in right of payment to its existing and future indebtedness that is expressly subordinated to the 2025 Convertible Notes and effectively junior to its existing and future secured indebtedness, to the extent of the value of the collateral securing that indebtedness. The 2025 Convertible Notes will be structurally subordinated to all existing and future indebtedness and other liabilities, including trade payables, of its subsidiaries.

For the year ended December 31, 2020, the interest expense recognized on the 2025 Convertible Notes for the contractual coupon interest, the accretion of the debt discount and the amortization of the debt issuance costs includes $1.7 million, $4.4 million and $0.07 million, respectively. The effective interest rate on the 2025 Convertible Notes is 5.5%, which includes the interest on the 2025 Convertible Notes and amortization of the debt discount and debt issuance costs. Interest on the 2025 Convertible Notes began accruing upon issuance and is payable semi-annually.

The 2025 Convertible Notes are accounted for as separate liability and equity components. The allocation was performed in a manner that reflected the Company’s non-convertible debt borrowing rate for similar debt. The equity component of the 2025 Convertible Notes was recognized as a debt discount and represents the difference between the proceeds from the issuance of the 2025 Convertible Notes and the fair value of the liability of the 2025 Convertible Notes on the date of issuance. At December 31, 2020 the equity component of the conversion option was $30.9 million and the associated tax liability was $7.5 million for a net equity component of $23.4 million. The excess of the principal amount of the 2025 Convertible Notes over the carrying amount of the liability component represents a debt discount that is amortized to interest expense over the term of the 2025 Convertible Notes under the effective interest rate method. The equity component is not re-measured as long as it continues to meet the conditions for equity classification.

Prior Senior Secured Credit Agreement

On May 4, 2020, the Company used $97.5 million of the net proceeds from the 2025 Convertible Notes to repay all outstanding amounts owed thereunder and terminated its Senior Secured Credit Agreement (the “Prior Senior Secured Credit Agreement”).

On June 27, 2019 (the “Prior Closing Date”), the Company entered into the Prior Senior Secured Credit Agreement with PNC Bank National Association (“PNC”), as administrative agent, and the lenders party thereto. The Prior Senior Secured Credit Agreement provided for a $100 million revolving credit facility (the “ Prior Revolving Credit Facility”), a $100 million term loan facility (the “Prior Term Loan Facility”), and a $50 million delayed draw term loan (the “ Prior Delayed Draw Term Loan”).

Borrowings under the Prior Senior Secured Credit Agreement bore interest at a rate per annum equal to an applicable margin plus, at the Company’s option, either (1) the Adjusted LIBOR rate for the relevant interest period, as defined within the agreement (2) an alternate base rate determined by reference to the greatest of (a) the federal funds rate for the relevant interest period plus 0.5% per annum, (b) the prime lending rate of PNC and (c) the daily LIBOR rate plus 1% per annum, or (3) a combination of (1) and (2). The applicable margin ranged from 1.25% to 2.25% for LIBOR loans and 0.25% to 1.25% for base rate loans, in each case based on NeoGenomics’ Consolidated Leverage Ratio, (as defined in the Prior Senior Secured Credit

Agreement). Interest on borrowings under the Prior Senior Secured Credit Agreement was payable on the last day of each month, in the case of each base rate loan, and on the last day of each interest period (but no less frequently than every three months), in the case of LIBOR loans. The Company previously entered into interest rate swap agreements to hedge against changes in the variable rate for a portion of its debt. See Note 10. Derivative Instruments and Hedging Activities, for more information on these instruments.

The Prior Revolving Credit Facility included a $10 million swing loan sublimit, with swing loans bearing interest at the alternate base rate plus the applicable margin. Any principal outstanding under the Prior Revolving Credit Facility was due and payable on June 27, 2024 or such earlier date as the obligations under the Prior Senior Secured Credit Agreement was due and payable pursuant to the terms of the Prior Senior Secured Credit Agreement. No amounts were outstanding under the Prior Revolving Credit Facility as of December 31, 2019.

On December 31, 2019, the Company had current outstanding borrowings under the Prior Term Loan Facility of approximately $5 million, and long-term outstanding borrowings of approximately $91.8 million, net of unamortized debt issuance costs of $0.7 million. In association with the early termination of the Prior Senior Secured Credit Agreement, the Company incurred a loss on the extinguishment of debt of $1.4 million.

In addition to paying interest on outstanding principal under the Prior Senior Secured Credit Agreement, the Company was required to pay a commitment fee in respect of the unutilized portion of the commitments under the Prior Revolving Credit Facility and the Prior Delayed Draw Term Loan. The commitment fee rate ranged from 0.15% to 0.35% depending on NeoGenomics' Consolidated Leverage Ratio. The Company also paid customary letter of credit and agency fees.

The Prior Term Loan Facility contained various covenants including entering into certain indebtedness; ability to incur liens and encumbrances; make certain restricted payments, including paying dividends on its equity securities or payments to redeem, repurchase or retire its equity securities; enter into certain burdensome agreements; make investments, loans and acquisitions; merge or consolidate with any other person; dispose of assets; enter into certain sale and leaseback transactions; engage in transactions with its affiliates, and materially alter the business it conducts. In addition, the Company was required to meet certain maximum leverage ratios and fixed charge coverage ratios as of the end of each fiscal quarter.

Equipment Financing Obligations

The Company has entered into loans with various banks to finance the purchase of laboratory equipment, office equipment and leasehold improvements. The obligations mature at various dates through 2022 and the weighted average interest rate under such loans was approximately 4.91% as of December 31, 2020 and 4.64% as of December 31, 2019.

Maturities of Long-Term Debt

Maturities of long-term debt at December 31, 2020 are summarized as follows (in thousands):

	1.25% Convertible Senior Notes	Equipment Financing Obligations	Total Long-Term Debt
2021	$ —	$ 2,841	$ 2,841
2022	—	916	916
2023	—	51	51
2024	—	—	—
2025	168,658	—	168,658
Total Debt	168,658	3,808	172,466
Less: Debt issuance costs	(538)	—	(538)
Less: Current portion of long-term debt	—	(2,841)	(2,841)
Long-term debt, net	$ 168,120	$ 967	$ 169,087

Note 10. Derivative Instruments and Hedging Activities

As of December 31, 2020, the Company did not have any outstanding derivative instruments. In June of 2018, the Company entered into an interest rate swap agreement to reduce the Company's exposure to interest rate fluctuations on the Company's variable rate debt obligations. This derivative financial instrument was accounted for at fair value as a cash flow hedge to effectively modify the Company's exposure to interest rate risk by converting a portion of its prior floating rate debt to a fixed rate obligation, thus reducing the impact of interest rate changes on interest expense.

Under the swap agreement, the Company received a variable rate of interest based on LIBOR and paid a fixed rate of interest. The following table summarizes the previous interest rate swap agreement.

	June 2018 Hedge
Notional Amount	$70 million
Effective Date	June 29, 2018
Index	One month LIBOR
Maturity	December 31, 2021
Fixed Rate	2.98 %

As discussed in Note 9. Debt, concurrently with the closing of the 2025 Convertible Notes, the proceeds from this transaction were used to pay off all amounts outstanding under the Company's Prior Senior Secured Credit Agreement, after which the Company had no outstanding debt with variable rate interest. On May 1, 2020, the remaining obligation to make any further payments under the swap agreement was terminated. As a result of the termination, the Company paid $3.3 million, which is included within loss on termination of cash flow hedge on the Consolidated Statements of Operations for the year ended December 31, 2020. The Company did not have any such losses in each of the years ended December 31, 2019 and 2018.

As of December 31, 2019, the fair value of the derivative financial instruments included in other long-term liabilities was approximately $2 million. Fair value adjustments were historically recorded within other comprehensive income. Upon termination of the interest rate swap in 2020, the accumulated losses, net of tax of $2.7 million, related to the interest rate swap were reclassified from accumulated other comprehensive income to loss on termination of cash flow hedge on the Consolidated Statements of Operations for the year ended December 31, 2020. No such reclassifications were recorded during each of the years ended December 31, 2019 and 2018.

Note 11. Equity Transactions

Underwritten Public Equity Offering

In May 2019, the Company completed an offering of approximately 8.1 million shares of registered common stock, at a price of $21.25 per share, for gross proceeds of approximately $171.1 million. The Company received approximately $160.8 million in net proceeds after deducting underwriting fees of approximately $10.3 million.

On April 29, 2020, the Company entered into an underwriting agreement relating to the issuance and sale of 4.4 million shares of the Company’s common stock, $0.001 par value per share (the “2020 Common Stock Offering”). The price to the public in this offering was $28.50 per share. The net proceeds to the Company from the 2020 Common Stock Offering were approximately $117.9 million, after deducting underwriting discounts, commissions and other offering expenses of approximately $7.5 million.

Under the terms of the underwriting agreement, the Company also granted the Underwriters a 30-day option to purchase up to 660,000 additional shares of Common Stock at the public offering price, less underwriting discounts and commissions. On May 29, 2020, the Underwriters partially exercised their option and on June 3, 2020, purchased an additional 351,500 shares. The net proceeds related to the option exercise were approximately $9.4 million, after deducting underwriting commissions and other offering expenses of approximately $0.6 million.

Common Stock Issued for Acquisitions

The Company issued 1 million shares of restricted common stock as consideration for the acquisition of Genesis Acquisition Holding Corp, and its wholly owned subsidiary, Genoptix, Inc. in December of 2018. In the first quarter of 2019, the Company recorded a $2.4 million working capital adjustment to the original cash consideration, as defined within the Merger Agreement. In June 2019, the Company received the proceeds of the working capital adjustment as $0.4 million in cash with the remainder received as a return of 99,524 shares of common stock.

Note 12. Class A Redeemable Convertible Preferred Stock

On December 30, 2015, ("Original Issue Date"), the Company issued 14,666,667 shares of its Series A Preferred Stock as part of the consideration given to acquire all of the outstanding stock of Clarient Inc. The Series A Preferred Stock had a face value of $7.50 per share for a total liquidation value of $110 million.

During the first year, the Series A Preferred Stock had a liquidation value of $100 million if the shares were redeemed prior to December 29, 2016. On December 22, 2016, the Company redeemed 8,066,667 shares of the Series A Preferred Stock for $55 million in cash. The redemption amount per share equaled $6.82 ($7.50 minus the liquidation discount of 9.09%). In December 2017, the Company issued 264,000 additional shares of Preferred Stock as a Paid-in-Kind ("PIK") dividend, resulting in a balance of 6,864,000 shares of Series A Preferred Stock outstanding at December 31, 2017.

On June 25, 2018, the Company redeemed all remaining outstanding Series A Preferred Stock for an aggregate redemption amount of $50.1 million, prior to consideration of any transaction related expenses. The shares were redeemed at $7.30 per share, representing the applicable 4.55% redemption discount on the original liquidation preference plus an additional $0.14 per share in respect of accrued and unpaid dividends for 2018. Following the redemption, no shares of Series A Preferred Stock remained outstanding.

The $9.1 million gain was calculated as the carrying value of the shares of preferred stock before the redemption of $37.8 million plus the amount of the BCF originally recorded with the redeemed shares of $21.3 million, as compared to the total consideration being paid, in this case the $50.1 million.

Note 13. Stock Based Compensation

Stock Option Plan

On May 25, 2017, the shareholders of the Company approved an amendment to the Equity Incentive Plan, originally effective as of October 14, 2003, and previously amended and restated and approved by the shareholders on December 21, 2015 (the "Amended Plan"). The Amended Plan allows for the award of equity incentives, including stock options, stock appreciation rights, restricted stock awards, stock bonus awards, deferred stock awards, and other stock-based awards to certain employees, directors, or officers of, or key non-employee advisers or consultants, including contracted physicians to the Company or its subsidiaries. The Amended Plan, provides that the maximum aggregate number of shares of the Company's common stock reserved and available for issuance under the Amended Plan is 18,650,000.

As of December 31, 2020 and 2019, stock options outstanding totaled 3.8 million and 5.3 million shares, respectively. As of December 31, 2020 and 2019, a total of approximately 1 million and 2.3 million shares, respectively, were available for future option and stock awards under the Amended Plan. Options typically expire after 5 or 7 years and generally vest over 3 or 4 years, but each grant's expiration, vesting and exercise price provisions are determined at the time the awards are granted by the Compensation Committee of the Board of Directors.

The fair value of each stock option award granted during the years ended December 31, 2020, 2019 and 2018 was estimated as of the grant date using a trinomial lattice model with the following weighted average assumptions:

	2020	2019	2018
Expected term (in years)	3.8 – 5.5	3.0 – 5.5	1.6 – 4.0
Risk-free interest rate (%)	0.7 %	2.4 %	2.5 %
Expected volatility (%)	42.7 %	43.2 %	43.0 %
Dividend yield (%)	0 %	0 %	0 %
Weighted average fair value/share at grant date	$ 8.88	$ 5.77	$ 2.80

The status of the stock options are summarized as follows:

	Number of Shares	Weighted Average Exercise Price
Outstanding at December 31, 2017	6,342,526	$ 6.51
Granted	2,457,102	9.03
Exercised	(1,570,211)	5.48
Forfeited	(390,000)	7.15
Outstanding at December 31, 2018	6,839,417	7.63
Granted	969,720	19.70
Exercised	(2,309,451)	6.83
Forfeited	(180,927)	13.34
Outstanding at December 31, 2019	5,318,759	9.97
Granted	845,120	28.33
Exercised	(2,310,934)	7.96
Forfeited	(67,004)	16.37
Outstanding at December 31, 2020	3,785,941	15.21
Exercisable at December 31, 2020	1,622,132	9.53

The number and weighted average grant-date fair values of options non-vested at the beginning and end of 2020, as well as options granted, vested and forfeited during the year was as follows:

	Number of Options	Weighted Average Grant Date Fair Value
Non-vested at December 31, 2019	3,056,759	$ 3.60
Granted	845,120	8.88
Vested	(1,672,739)	3.27
Forfeited	(65,331)	5.14
Non-vested at December 31, 2020	2,163,809	6.07

The following table summarizes information about the options outstanding at December 31, 2020:

	Options Outstanding			Options Exercisable		
Range of Exercise Prices ($)	Number Outstanding	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price
6.00 – 8.00	493,176	0.92	$ 7.26	480,676	0.91	$ 7.25
8.01 – 9.00	1,206,864	1.99	8.05	703,360	1.88	8.06
9.01 – 15.00	498,606	2.48	10.97	271,253	2.39	10.66
15.01 – 20.00	507,845	3.28	19.56	97,441	3.26	19.58
20.01 – 37.53	1,079,450	6.04	26.75	69,402	5.39	21.75
	3,785,941	3.24	15.21	1,622,132	1.91	9.53

As of December 31, 2020, the aggregate intrinsic value of all stock options outstanding and expected to vest was approximately $146.3 million and the aggregate intrinsic value of currently exercisable stock options was approximately $71.9 million. The intrinsic value of each option share is the difference between the fair market value of NeoGenomics' common stock and the exercise price of such option share to the extent it is "in-the-money". Aggregate intrinsic value represents the value that would have been received by the holders of

in-the-money options had they exercised their options on the last trading day of the year and sold the underlying shares at the closing stock price on such day. The intrinsic value calculation is based on the $53.84

closing stock price of NeoGenomics common stock on December 31, 2020, the last trading day of 2020. The total number of in-the-money options outstanding and exercisable as of December 31, 2020 was approximately 1.6 million.

The total intrinsic value of options exercised during each of the years ended December 31, 2020, 2019 and 2018 were approximately $68.6 million, $35.3 million and $29.3 million, respectively. Intrinsic value of exercised shares is the total value of such shares on the date of exercise less the cash received from the option holder to exercise the options. The total cash proceeds received from the exercise of stock options were approximately $18.4 million, $12.4 million and $8.6 million for the years ended December 31, 2020, 2019 and 2018, respectively.

The total fair value of options granted during the years ended December 31, 2020, 2019 and 2018 was approximately $7.5 million, $5.6 million and $6.9 million, respectively. The total fair value of option shares vested during the years ended December 31, 2020, 2019 and 2018 was approximately $5.2 million, $5.5 million and $5.5 million, respectively.

The Company recognizes stock-based compensation expense using the straight-line basis over the awards' requisite service periods. Stock compensation expense related to stock options for the years ended December 31, 2020, 2019 and 2018 was approximately $6 million, $6.8 million and $5.4 million, respectively, and is included in general and administrative expenses. As of December 31, 2020, there was approximately $5.7 million of total unrecognized stock-based compensation cost related to non-vested stock options granted under the Amended Plan. This cost is expected to be recognized over a weighted-average period of 1.9 years.

Employee Stock Purchase Plan

The Company sponsors an Employee Stock Purchase Plan ("ESPP"), under which eligible employees can purchase common stock at a 15% discount from the fair market value. Stock-based compensation expense related to the ESPP for the years ended December 31, 2020, 2019 and 2018 was approximately $0.9 million, $0.6 million and $0.2 million, respectively. Shares issued pursuant to this plan were 138,309, 141,908 and 113,503 for each of the years ended December 31, 2020, 2019 and 2018, respectively.

Restricted Stock Awards

The number and weighted average grant date fair values of restricted non-vested common stock at the beginning and end of 2020, 2019 and 2018, as well as stock awards granted, vested and forfeited during the year are as follows:

	Number of Restricted Shares	Weighted Average Grant Date Fair Value
Nonvested at December 31, 2017	327,211	$ 7.27
Granted in 2018	87,811	12.87
Vested in 2018	(119,180)	7.27
Forfeited in 2018	(13,334)	7.27
Nonvested at December 31, 2018	282,508	9.01
Granted in 2019	230,980	19.93
Vested in 2019	(115,711)	9.36
Forfeited in 2019	(62,479)	12.53
Nonvested at December 31, 2019	335,298	15.75
Granted in 2020	149,012	28.45
Vested in 2020	(184,127)	12.90
Forfeited in 2020	(8,292)	20.75
Nonvested at December 31, 2020	291,891	23.82

Stock compensation expense related to restricted stock for the years ended December 31, 2020, 2019 and 2018 was approximately $3.4 million, $2.6 million, and $1.3 million, respectively, and is included in general and administrative expenses. As of December 31, 2020, there was approximately $3.3 million of total unrecognized stock-based compensation cost related to non-vested restricted stock granted under the Amended Plan. This cost is expected to be recognized over a weighted-average period of 1.8 years.

Note 14. Revenue Recognition

The Company has two operating segments for which it recognizes revenue; Clinical Services and Pharma Services. The Clinical Services segment provides various clinical testing services to community-based pathology practices, oncology practices, hospital pathology labs, reference labs, and academic centers with reimbursement from various payers including client direct billing, commercial insurance, Medicare and other government payers, and patients. The Pharma Services segment supports pharmaceutical firms in their drug development programs by providing testing services and data analytics for clinical trials and research.

Clinical Services Revenue

The Company's specialized diagnostic services are performed based on a written test requisition form or electronic equivalent. The performance obligation is satisfied and revenues are recognized once the diagnostic services have been performed and the results have been delivered to the ordering physician. These diagnostic services are billed to various payers, including client direct billing, commercial insurance, Medicare and other government payers, and patients. Revenue is recorded for all payers based on the amount expected to be collected, which considers implicit price concessions. Implicit price concessions represent differences between amounts billed and the estimated consideration the Company expects to receive based on negotiated discounts, historical collection experience and other anticipated adjustments, including anticipated payer denials. Collection of consideration the Company expects to receive typically occurs within 30 to 60 days of billing for commercial insurance, Medicare and other governmental and self-pay payers and within 60 to 90 days of billing for client payers.

Pharma Services Revenue

The Company's Pharma Services segment generally enters into contracts with pharmaceutical customers as well as other CROs to provide research and clinical trial services ranging in duration from one month to several years. The Company records revenue on a unit-of-service basis based on number of units completed and the total expected contract value. The total expected contract value is estimated based on historical experience of total contracted units compared to realized units as well as known factors on a specific contract-by-contract basis. Certain contracts include upfront fees, final settlement amounts or billing milestones that may not align with the completion of performance obligations. The value of these upfront fees or final settlement amounts is usually recognized over time based on the number of units completed, which aligns with the progress of the Company towards fulfilling its obligations under the contract.

The Company also enters into other contracts, such as validation studies and informatics. Revenue for validation studies for which the sole deliverable may be a final report that is sent to sponsors at the completion of contracted activities, is recognized at a point in time upon delivery of the final report to the sponsor. Informatics is the sale of de-identified data for which deliverables typically consist of retrospective records or prospective deliveries of data. Informatics revenue is recognized upon delivery of retrospective data or over time for prospective data feeds. Any contracts that contain multiple performance obligations and include both units-of-service and point in time deliverables are accounted for as separate performance obligations and revenue is recognized as previously disclosed. The Company negotiates billing schedules and payment terms on a contract-by-contract basis. While the contract terms generally provide for payments based on a unit-of-service arrangement, the billing schedules, payment terms and related cash payments may not align with the performance of services and, as such, may not correspond to revenue recognized in any given period.

Amounts collected in advance of services being provided are deferred as contract liabilities on the Consolidated Balance Sheets. The associated revenue is recognized and the contract liability is reduced as the contracted services are subsequently performed. Contract assets are established for revenue that has been recognized but not yet billed. These contract assets are reduced once the customer is invoiced and a corresponding receivable is recorded. Additionally, certain costs to obtain contracts, primarily for sales commissions, are capitalized when incurred and are amortized over the term of the contract. Amounts capitalized for contracts with an initial contract term of twelve months or less are classified as current assets. All others are classified as non-current assets.

Most contracts are terminable by the customer, either immediately or according to advance notice terms specified within the contracts. All contracts require payment of fees to the Company for services rendered through the date of termination and may require payment for subsequent services necessary to conclude the study or close out the contract.

The following table summarizes the values of contract assets, capitalized commissions and contract liabilities as of December 31, 2020 and December 31, 2019 (in thousands):

	December 31, 2020	December 31, 2019
Current pharma contract assets[1]	$ 1,643	$ 1,000
Long-term pharma contract assets[2]	290	153
Total pharma contract assets	$ 1,933	$ 1,153
Current pharma capitalized commissions[1]	$ 185	$ 133
Long-term pharma capitalized commissions[2]	970	798
Total pharma capitalized commissions	$ 1,155	$ 931
Current pharma contract liabilities	$ 4,029	$ 1,610
Long-term pharma contract liabilities[3]	712	1,171
Total pharma contract liabilities	$ 4,741	$ 2,781

[1] Current pharma contract assets and current pharma capitalized commissions are recorded within "other current assets" on the Consolidated Balance Sheets.

[2] Long-term pharma contract assets and long-term pharma capitalized commissions are recorded within "other assets" on the Consolidated Balance Sheets.

[3] Long-term pharma contract liabilities are recorded within "other long-term liabilities" on the Consolidated Balance Sheets.

The increases in the contract assets for the period ended December 31, 2020 as compared to the balances at December 31, 2019 are driven by increases in the volume of Pharma contracts nearing completion. Total Pharma contract liabilities increased approximately $2 million, or approximately 70%, from December 31, 2019 while capitalized commissions increased by approximately $0.2 million, or approximately 24%, from December 31, 2019. Revenue recognized for the years ended December 31, 2020 and 2019 related to Pharma contract liabilities outstanding at the beginning of the period were $2.3 million and $2.2 million, respectively. Amortization of capitalized commissions for the years ended December 31, 2020, 2019 and 2018 were $0.8 million, $1.2 million and $1 million respectively.

During the year ended December 31, 2020, the Company signed approximately $123 million in net new contracts bringing the total amount of signed contracts at year-end to $208.9 million, substantially all of which contain cancellation provisions. The Company applied the practical expedient and does not disclose information about remaining performance obligations that have original expected durations of one year or less. The unsatisfied existing performance obligations under long-term contracts as defined by ASC 606 differs from backlog in that these obligations do not include wholly unperformed contracts where the promised consideration is variable and/or the application of other practical expedients.

Disaggregation of Revenue

The Company considered various factors for both its Clinical Services and Pharma Services segments in determining appropriate levels of homogeneous data for its disaggregation of revenue, including the nature, amount, timing and uncertainty of revenue and cash flows. For Clinical Services, the categories identified align with the type of customer due to similarities of billing method, level of reimbursement and timing of cash receipts. Unbilled amounts are accrued and allocated to payer categories based on historical experience. In future periods, actual billings by payer category may differ from accrued amounts. Pharma Services revenue was not further disaggregated as substantially all of the revenue relates to contracts with large pharmaceutical and biotech customers as well as other CROs for which the nature, timing and uncertainty of revenue and cash flows is similar and primarily driven by individual contract terms.

The following table details the disaggregation of revenue for both the Clinical Services and Pharma Services Segments (in thousands):

	December 31, 2020	December 31, 2019	December 31, 2018
Clinical Services:			
Client direct billing	$ 240,535	$ 212,703	$ 164,888
Commercial insurance	76,550	83,107	40,360
Medicare and other government	64,776	64,745	35,566
Self-Pay	476	606	1,059
Total Clinical Services	382,337	361,161	241,873
Pharma Services:	62,111	47,669	34,868
Total Revenue	$ 444,448	$ 408,830	$ 276,741

Note 15. Income Taxes

The CARES Act adjusted a number of provisions of the tax code, including the eligibility of certain deductions and the treatment of net operating losses ("NOLs") and tax credits. The CARES Act did not result in any material adjustments to the Company's income tax provision for the year ended December 31, 2020, or to its deferred tax assets as of December 31, 2020.

(Loss) income before income tax (benefit) expense for the years ended December 31, 2020, 2019 and 2018 is as follows (in thousands):

	2020	2019	2018
(Loss) income before income tax (benefit) expense:			
Domestic	$ (6,954)	$ 7,053	$ 6,126
Foreign	(7,102)	(3,408)	(2,302)
Total	$ (14,056)	$ 3,645	$ 3,824
Income tax (benefit) expense			
Current:			
Federal	$ (434)	$ (303)	$ (448)
State	273	290	126
Total current benefit	$ (161)	$ (13)	$ (322)
Deferred:			
Federal	$ (12,856)	$ (3,409)	$ 1,070
State	(5,211)	(939)	321
Foreign	—	—	115
Total deferred (benefit) expense provision	$ (18,067)	$ (4,348)	$ 1,506
Total tax (benefit) expense provision	$ (18,228)	$ (4,361)	$ 1,184

A reconciliation of the differences between the effective tax rate and the federal statutory tax rate for the years ended December 31, 2020, 2019 and 2018 is as follows:

	2020	2019	2018
Federal statutory tax rate	21.00 %	21.00 %	21.00 %
State income taxes, net of federal income tax benefit	14.29 %	(19.47)%	11.01 %
Non-deductible expenses	(1.42)%	7.49 %	3.80 %
Compensation expense	65.78 %	(135.12)%	(12.52)%
Transaction expenses	— %	— %	7.09 %
Tax credits	32.11 %	— %	(1.87)%
Adjustment due to adoption of accounting standards	— %	— %	(13.84)%
Uncertain tax position	1.21 %	(3.32)%	— %
Return to provision and other deferred tax adjustments	7.38 %	(13.20)%	— %
Foreign tax rate differential	(1.64)%	— %	7.20 %
Other, net	(0.06)%	(2.78)%	0.66 %
Valuation allowance	(8.97)%	25.74 %	8.44 %
Effective tax rate	129.68 %	(119.66)%	30.97 %

At December 31, 2020 and 2019, deferred income tax assets and liabilities consisted of the following (in thousands):

	2020	2019
Deferred tax assets:		
Accounts receivable, net	$ 1,286	$ 1,401
Accrued compensation	5,403	3,718
Net operating loss carry-forwards	33,888	17,687
Tax credits	4,575	—
Stock-based compensation	1,999	2,056
Operating lease liabilities	11,589	6,822
Other	1,470	571
Gross deferred tax assets	60,210	32,255
Less: valuation allowance	(2,631)	(1,261)
Total deferred tax assets	57,579	30,994
Deferred tax liabilities:		
Operating lease right-of-use assets	(11,120)	(6,422)
Investment in non-consolidated affiliate	(1,000)	—
Convertible debt discount	(6,636)	—
Intangible assets	(29,268)	(31,840)
Property and equipment	(14,678)	(8,298)
Other	(292)	—
Total deferred tax liabilities	(62,994)	(46,560)
Net deferred income tax liabilities	$ (5,415)	$ (15,566)

At December 31, 2020, the Company has federal net operating loss carry forwards of approximately $123.7 million, foreign net operating loss carryforwards of approximately $15.6 million and state net operating loss carry forwards of approximately $102 million. Federal net operating loss carry forwards will begin to expire in 2036. Under the Tax Act, as modified by the Coronavirus Aid, Relief, and Economic Act, or the CARES Act, our federal NOLs generated in tax years ending after December 31, 2017 may be carried forward indefinitely, however, the deductibility of such federal net NOLs in tax years beginning after December 31, 2020, is limited to 80% of taxable income. It is uncertain if and to what extent various states will conform to the Tax Act, as modified by the CARES Act. State tax NOLs will begin to expire in 2022. Additionally, California recently enacted legislation limiting our ability to use our state NOLs for taxable years 2020, 2021, and 2022. NOLs in Switzerland and China begin to expire in 2024 and 2025, if not utilized in future periods. The NOLs in Singapore do not expire. As of December 31, 2020, the Company has federal R&D credit carryforwards of approximately $3.7 million that begin to expire in 2036 and state research and investment credit carryforwards of approximately $3 million that do not expire. An ownership change of more than 50 percent could result in a limitation of the use of net operating loss carryforwards and credit carryforwards under IRC Section 382 and the regulations thereunder. Management believes it is more likely than not that a

limitation under Section 382 would not impact the realizability of the deferred tax assets related to federal and state net operating losses or credits.

Management assesses the recoverability of its deferred tax assets as of the end of each quarter, weighing all positive and negative evidence, and is required to establish and maintain a valuation allowance for these assets if it is more likely than not that some or all of the deferred tax assets will not be realized. The weight given to the evidence is commensurate with the extent to which the evidence can be objectively verified. If negative evidence exists, positive evidence is necessary to support a conclusion that a valuation allowance is not needed. As of December 31, 2020, management determined that sufficient positive evidence did not exist to conclude that it is more likely than not that the Net Operating Losses incurred by the Company's Switzerland, Singapore and China operations would be utilized in future periods. Accordingly, management established a full valuation allowance of $2.6 million against the deferred tax assets generated by these three jurisdictions.

The Company files income tax returns in the U.S. as well as Singapore, Switzerland, China and in various state jurisdictions. Tax regulations within each jurisdiction are subject to the interpretation of the related tax laws and regulations and require significant judgment. For federal and most state purposes, the Company has open tax years ended December 31, 2016 to December 31, 2019. The 2017 U.S. federal income tax filing is currently under examination by the IRS.

The Company adopted the accounting standard for uncertain tax positions and recognizes the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more likely than not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement with the relevant tax authority. Increases or decreases to the unrecognized tax benefits could result from management’s belief that a position can or cannot be sustained upon examination based on subsequent information or potential lapse of the applicable statute of limitation for certain tax positions.

The following are the unrecognized tax benefits as of December 31, 2020 and 2019 (in thousands):

	For the Years Ended December 31,	
	2020	2019
Unrecognized tax benefits - January 1	$ 444	$ 1,847
Increases in prior year positions	1,020	27
Reversals of prior year positions	—	(1,215)
Increases in tax positions taken in current year	378	—
Statute expirations	(172)	(215)
Unrecognized tax benefits - December 31	$ 1,670	$ 444

The amount of unrecognized tax benefits at December 31, 2020, if recognized would favorably affect the Company's effective tax rate. These unrecognized tax benefits are classified as other long-term liabilities in the Company’s Consolidated Balance Sheets. The interest and penalties related to the unrecognized tax benefit are immaterial. Interest and tax penalties related to unrecognized tax benefits are included in income tax expense.

The Company has received a temporary tax holiday in Switzerland as an incentive to locate and grow operations. The tax holiday is for two consecutive 5-year periods beginning with the year ended December 31, 2017 and is dependent on meeting agreed upon employment and capital investment targets. The first 5-year period ends with the year ended December 31, 2021 and the second 5-year period, should the employment and capital investment targets be met, end with the year ended December 31, 2026. As the Switzerland operations have been in a tax loss position since inception, no financial benefits have been realized.

Note 16. Net Income per Share

The Company has adopted the two class method of calculating earnings per share, due to the issuance of the Series A Preferred Stock in December 2015. Under this method, when the Company had a net loss the Company would not allocate the net loss to the holders of the Series A Preferred Stock (participating shareholders) as they did not have a contractual obligation to share in losses. Under this method, when the Company had net income, the Company will compute net income per share using the weighted average number of common shares outstanding during the applicable period plus the weighted average number of preferred shares outstanding during the period.

Diluted net income per share is computed using the weighted average number of common shares outstanding during the applicable period, plus the dilutive effect of potential common stock. Potential common stock consists of shares issuable pursuant to stock options and convertible notes as well as nonvested restricted stock awards which are not considered outstanding with respect to the weighted average common shares outstanding in the calculation of basic net income per share. Potentially dilutive shares are determined by applying the treasury stock method to the Company's outstanding stock options and restricted stock awards. Potentially dilutive shares issuable upon conversion of the 1.25% Convertible Senior Notes due 2025 are calculated using the if-converted method.

The following table provides the computation of basic and diluted net income per share attributable to common stockholders for the years ended December 31, 2020, 2019 and 2018 (in thousands, except share and per share amounts):

	For the Years Ended December 31,		
	2020	2019	2018
Net income	$ 4,172	$ 8,006	$ 2,640
Deemed dividends on preferred stock and amortization of beneficial conversion feature	—	—	5,627
Gain on redemption of preferred stock	—	—	(9,075)
Net income attributable to common stockholders	$ 4,172	$ 8,006	$ 6,088
Basic weighted average common shares outstanding	108,579	100,470	85,618
Dilutive effect of stock options	3,010	2,862	2,412
Dilutive effect of restricted stock awards	205	283	238
Dilutive effect of preferred stock	—	—	3,300
Diluted weighted average shares outstanding	111,794	103,615	91,568
Basic net income per share attributable to common stockholders	$ 0.04	$ 0.08	$ 0.07
Diluted net income per share attributable to common stockholders	$ 0.04	$ 0.08	$ 0.07

An entity using the if-converted method assumes that a convertible debt instrument was converted into common shares at the beginning of the reporting period. As a result, net income is adjusted to reverse any recognized interest expense (including any amortization of discounts). Although the Company is in an income position for the year ended December 31, 2020, the effect of this adjustment on both net income and weighted average diluted common shares outstanding would be anti-dilutive and therefore net income was not adjusted for any recognized interest expense add-back. For the year ended December 31, 2020, the Company excluded $4.8 million in recognized interest expense related the 2025 Convertible Notes because the effect of adjusting the recognized interest expense was anti-dilutive.

The following potential dilutive shares were excluded from the calculation of diluted net loss per share because the effect of including these potential shares was anti-dilutive for the years ended December 31, 2020, 2019 and 2018:

	For the Years Ended December 31,		
	2020	2019	2018
Convertible notes	3,723	—	—

Note 17. Retirement Plan

The Company maintains a defined-contribution 401(k) retirement plan covering substantially all employees (as defined). The Company's employees may make voluntary contributions to the plan, subject to limitations based on IRS regulations and compensation. Effective January 1, 2017 the Company matches 100% of every dollar contributed up to 3% of the respective employee’s compensation and an additional 50% of every dollar contributed on the next 2% of compensation (4% maximum Company match). The Company made matching contributions of approximately $4.9 million, $4.4 million and $2.7 million during the years ended December 31, 2020, 2019 and 2018, respectively.

Note 18. Commitments and Contingencies

Purchase Commitments

The Company has agreements in place to purchase a specified level of reagents from certain vendors. These purchase commitments expire at various dates through 2023. The purchase commitments as of December 31, 2020 are as follows (in thousands):

Years ending December 31,		
2021	$	6,770
2022		947
2023		276
Total purchase commitments	$	7,993

Note 19. Related Party Transactions

On May 22, 2020, the Company formed a strategic alliance with Inivata and entered into a Strategic Alliance Agreement and Laboratory Services Agreement with Inivata's laboratory subsidiary in the U.S., Inivata, Inc., whereas Inivata's laboratory will render and perform certain laboratory testing which the Company will make available to customers. In addition, the Company entered into a line of credit agreement with Inivata.

See Note 8. Investment in Non-Consolidated Affiliate, for further details on the investment made in Inivata.

Note 20. Segment Information

The Company has two operating segments for which it recognizes revenue; Clinical Services and Pharma Services. The Company's Clinical Services segment provides various clinical testing services to community-based pathology practices, hospital pathology labs and academic centers with reimbursement from various payers including client direct billing, commercial insurance, Medicare and other government payers, and patients. The Company's Pharma Services segment supports pharmaceutical firms in their drug development programs by supporting various clinical trials and research as well as providing informatics related services often supporting Pharma commercialization efforts.

The financial information reviewed by the Chief Operating Decision Maker ("CODM") includes revenues, cost of revenue and gross margin for each of the Company's operating segments. Assets are not presented at the segment level as that information is not used by the CODM.

The following table summarizes segment information for the years ended December 31, 2020, 2019 and 2018 (in thousands).

	For the Years Ended December 31,		
	2020	2019	2018
Net revenues:			
Clinical Services	$ 382,337	$ 361,161	$ 241,873
Pharma Services	62,111	47,669	34,868
Total revenue	444,448	408,830	276,741
Cost of revenue:			
Clinical Services	215,529	185,612	128,297
Pharma Services	43,026	26,382	21,179
Total cost of revenue	258,555	211,994	149,476
Gross Profit:			
Clinical Services	166,808	175,549	113,576
Pharma Services	19,085	21,287	13,689
Total gross profit	185,893	196,836	127,265
Operating expenses:			
General and administrative	143,794	127,993	84,822
Research and development	8,229	8,487	3,001
Sales and marketing	47,862	47,350	29,402
Total operating expenses	199,885	183,830	117,225
(Loss) income from operations	(13,992)	13,006	10,040
Interest expense, net	7,019	3,713	6,230
Other (income) expense, net	(11,861)	4,630	(14)
Loss on extinguishment of debt	1,400	1,018	—
Loss on termination of cash flow hedge	3,506	—	—
(Loss) income before taxes	(14,056)	3,645	3,824
Income tax (benefit) expense	(18,228)	(4,361)	1,184
Net income	$ 4,172	$ 8,006	$ 2,640

Note 21. Subsequent Events

The Company has evaluated subsequent events through the issuance of these Consolidated Financial Statements. Based on this evaluation, it was determined that no subsequent events occurred, other than the items noted below, that require recognition or disclosure on the Consolidated Financial Statements.

Common Stock Offering

On January 6, 2021, the Company, in connection with an offering of its common stock (the "2021 Common Stock Offering"), entered into an underwriting agreement relating to the issuance and sale of 4,081,632 shares of the Company's common stock, $0.001 par value per share (the "Common Stock"). The price to the public in this offering was $49.00 per share and the

underwriters purchased the shares from the Company at the public offering price, less underwriting discounts and commissions of $2.45 per share. Under the terms of the 2021 Common Stock Offering underwriting agreement, the Company granted the underwriters a 30-day option to purchase up to 612,244 additional shares of Common Stock at the public offering price, less underwriting discounts and commissions. The underwriters exercised in full their option to purchase the additional shares on January 7, 2021. The net proceeds to the Company from the 2021 Common Stock Offering were approximately $218.3 million, after deducting underwriting discounts and commissions and estimated offering expenses payable by the Company.

Convertible Notes Offering

On January 6, 2021, the Company, in connection with an offering by the Company (the "2028 Convertible Notes Offering" and together with the 2021 Common Stock Offering, the "Offerings") of its 0.25% convertible senior notes due 2028 (the "2028 Convertible Notes"), entered into an underwriting agreement (the "Convertible Notes Underwriting Agreement" and together with the Common Stock Underwriting Agreement, the "Underwriting Agreements") with the underwriters pursuant to which the Company agreed to issue and sell a total of $300 million aggregate principal amount of its 2028 Convertible Notes to the Underwriters. In addition, pursuant to the Convertible Notes Underwriting Agreement, the underwriters were granted an option, exercisable within 30 days, to purchase up to an additional $45 million aggregate principal amount of the 2028 Convertible Notes on the same terms and conditions solely to cover over-allotments with respect to the 2028 Convertible Notes Offering. The Underwriters exercised in full their option to purchase the additional principal amount of 2028 Convertible Notes on January 7, 2021. The 2028 Convertible Notes were priced to investors in the 2028 Convertible Notes Offering at 100% of their principal amount, and the Underwriters purchased the 2028 Convertible Notes from the Company pursuant to the Convertible Notes Underwriting Agreement at a price of 97% of their principal amount. The net proceeds to the Company from the 2028 Convertible Notes Offering were approximately $334.5 million, after deducting underwriting discounts and commissions and estimated offering expenses payable by the Company. The Company used $29.3 million of the net proceeds from the Offerings to enter into capped call transactions, as described below.

Capped Call Transactions

In connection with the 2028 Convertible Notes Offering, on January 11, 2021, the Company entered into privately negotiated capped call transactions (collectively, the "Capped Call Transactions") with the option counterparties pursuant to capped call confirmations (each a "Confirmation"). The Capped Call Transactions are intended to reduce the potential dilution to the Company's common stock upon any conversion of the 2028 Convertible Notes and/or offset some or all of any cash payments and/or delivery of common shares the Company is required to make in excess of the principal amount of converted Notes, as the case may be, with such reduction and/or offset subject to a cap. The cap price of the Capped Call Transactions is initially $85.75 per share, which represents a premium of 75% over the public offering price of the Common Stock in the 2021 Common Stock Offering, which was $49.00 per share, and is subject to certain adjustments under the terms of the Capped Call Transactions.

Line of Credit with Non-Consolidated Affiliate

In May 2020, the Company and Inivata entered into a line of credit agreement. In January 2021, the $15 million Line of Credit, in its entirety, was drawn by Inivata and has a maturity date of December 1, 2025. The Line of Credit bears interest at 0% per annum and the unpaid principal balance is payable on January 1, 2026. See Note 8. Investment in Non-Consolidated Affiliate, for more information on the Line of Credit.

CEO Succession

On February 24, 2021, the Company announced that Mr. Douglas M. VanOort, its Chairman of the Board and Chief Executive Officer, will retire and transition to become executive chairman of the Company's Board of Directors on April 19, 2021 as part of a deliberate succession planning process. Mr. Mark Mallon will become NeoGenomics' Chief Executive Officer and will join the Company's Board of Directors at that time.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we evaluated the effectiveness of our disclosure controls and procedures as of December 31, 2020. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of December 31, 2020, our disclosure controls and procedures were (1) effective in that they were designed to ensure that material information relating to us, and information required to be disclosed in our reports to the SEC, including our consolidated subsidiaries, is made known to our Chief Executive Officer and Chief Financial Officer by others within those entities, particularly during the period in which this report was being prepared, as appropriate to allow timely discussions and decisions regarding required disclosure therein and (2) effective, in that they provide reasonable assurance that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

Management's Report on Internal Control over Financial Reporting

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is defined in Rules 13a-15(f) or 15d-15(f) promulgated under the Exchange Act as a process designed by, or under the supervision of, our principal executive and principal financial officer and effected by the Company's Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures: (1) that pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, however, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. Our management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2020. In making this assessment, our management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control—Integrated Framework (2013 Framework). Based on our assessment, management, with the participation of our Chief Executive Officer and Chief Financial Officer, concluded that, as of December 31, 2020, our internal control over financial reporting was effective based on those criteria at the reasonable assurance level. The effectiveness of our internal control over financial reporting as of December 31, 2020 has been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated and attested to in their report that is included in Item 8, Financial Statements and Supplementary Data.

Changes in Internal Control over Financial Reporting

During the fourth quarter of 2020, we continued to monitor and evaluate the design and operating effectiveness of key controls. There were no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act) that materially affected or are reasonably likely to materially affect internal control over financial reporting.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

Opinion on Internal Control over Financial Reporting

We have audited the internal control over financial reporting of NeoGenomics, Inc. and subsidiaries (the "Company") as of December 31, 2020, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2020, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated financial statements as of and for the year ended December 31, 2020, of the Company and our report dated February 25, 2021, expressed an unqualified opinion on those financial statements.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Deloitte & Touche LLP

San Diego, California
February 25, 2021

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this Item 10 will be included under the captions “Election of Directors”, “Information as to Nominees and Other Directors”, “Information Regarding Meetings and Committees of the Board”, “Section 16(a) Beneficial Ownership Reporting Compliance” and as otherwise, set forth in the Company’s 2021 Proxy Statement and is incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this Item 11 will be included under the captions “Executive Compensation and Other Information” and “Compensation Committee Interlocks and Insider Participation” and as otherwise set forth in the Company’s 2021 Proxy Statement and is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this Item 12 will be included under the captions “Security Ownership” and “Equity Compensation Plan Information” and as otherwise set forth in the Company’s 2021 Proxy Statement and is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

The information required by this Item 13 will be included under the captions “Certain Relationships and Related Party Transactions” and “Information Regarding Meetings and Committees of the Board” and as otherwise set forth in the Company’s 2021 Proxy Statement and is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by this Item 14 will be included under the caption “Independent Auditors” and as otherwise set forth in the Company’s 2021 Proxy Statement and is incorporated herein by reference.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

Financial Statements: See Index to Consolidated Financial Statements under Part II, Item 8 of this Annual Report on Form 10-K

Exhibit No.	Description of Exhibit	Location
3.1	Articles of Incorporation, as amended	Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 2019 as filed with the SEC on February 28, 2020
3.2	Amended and Restated Bylaws, as amended	Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2015, as filed with the SEC on November 6, 2015
4.1	Description of our Common Stock	Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 2019 as filed with the SEC on February 28, 2020
4.2	Indenture, dated May 4, 2020, by and between the Company and U.S. Bank National Association, as Trustee.	Incorporated by reference to the Company's Current Report on Form 8-K as filed with the SEC on May 4, 2020
4.3	Form of 1.25% Senior Convertible Note Due 2025 (included in Exhibit 4.2).	Incorporated by reference to the Company's Current Report on Form 8-K as filed with the SEC on May 4, 2020
10.1	Amended and Restated Registration Rights Agreement between NeoGenomics, Inc. and Aspen Select Healthcare, L.P. and individuals dated March 23, 2005	Incorporated by reference to the Company's Current Report on Form 8-K as filed with the SEC on March 30, 2005
10.2	Registration Rights Agreement between NeoGenomics, Inc. and Aspen Select Healthcare, L.P., dated March 30, 2006	Incorporated by reference to the Company's Annual Report on Form 10-KSB for the year ended December 31, 2005, as filed with the SEC on April 3, 2006
10.3	Subscription Agreement dated March 16, 2009 between the Douglas M. VanOort Living Trust and NeoGenomics, Inc.	Incorporated by reference to the Company's Current Report on Form 8-K as filed with the SEC on March 20, 2009
10.4*	Amended and Restated Employment Agreement dated October 28, 2009 between NeoGenomics, Inc. and Douglas M. VanOort	Incorporated by reference to the Company's Current Report on Form 8-K as filed with the SEC on November 3, 2009
10.5*	Employment Letter dated November 3, 2009 between NeoGenomics Laboratories, Inc. and George Cardoza	Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2010, as filed with the SEC on August 16, 2010
10.6*	Offer Letter between NeoGenomics Laboratories, Inc. and Steven Ross dated April 19, 2013	Incorporated by reference to the Company's Current Report on Form 8-K as filed with the SEC on April 23, 2013
10.7*	Employment Agreement, dated September 18, 2014 by and between NeoGenomics, Inc. and Robert J. Shovlin	Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K as filed with the SEC on October 3, 2014
10.8*	Employment Agreement, dated April 14, 2017 between NeoGenomics, Inc. and William Bonello.	Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2019, as filed with the SEC on May 8, 2019
10.9*	Amended and Restated Equity Incentive Plan effective as of October 15, 2015.	Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 2015, as filed with the SEC on March 15, 2016
10.10*	Amendment No. 1 of the Amended and Restated Equity Incentive Plan, effective as of May 25, 2017.	Incorporated by reference to the Company's Proxy Statement, dated April 24, 2017, as filed with the SEC on April 25, 2017

10.11	Form of Indemnification Agreement between NeoGenomics, Inc. and each of its executive officers and directors.	Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2016, as filed with the SEC on November 7, 2016
10.12*	Medical Services Agreement between NeoGenomics, Inc., and Lawrence Weiss, M.D., Inc., effective November 25, 2019	Incorporated by reference to the Company's Current Report on Form 8-K as filed with the SEC on December 2, 2019
10.13*	Employment Agreement dated February 5, 2020 between Ms. Kathryn B. McKenzie and NeoGenomics, Inc.	Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 2019, as filed with the SEC on February 28, 2020
10.14*	Employment Agreement dated February 10, 2020 between Mr. Douglas Brown and NeoGenomics, Inc.	Provided herewith
10.15*	Offer Letter dated May 8, 2020 between Ms. Cynthia J. (Cindy) Dieter and NeoGenomics, Inc.	Provided herewith
10.16	Board of Directors Appointment Letter Agreement between Rachel A. Stahler and NeoGenomics, Inc. dated August 24, 2020.	Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2020, as filed with the SEC on October 29, 2020
10.17	Board of Directors Appointment Letter Agreement between Michael A. Kelly and NeoGenomics, Inc. dated August 11, 2020.	Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2020, as filed with the SEC on October 29, 2020
14.1	NeoGenomics, Inc. Code of Ethics for Senior Financial Officers and the Principal Executive Officer	Incorporated by reference to the Company's Current Report on Form 8-K as filed with the SEC on July 20, 2011
21.1	Subsidiaries of NeoGenomics, Inc.	Provided herewith
23.1	Consent of Deloitte & Touche LLP	Provided herewith
23.2	Consent of Crowe LLP	Provided herewith
31.1	Certification by Principal Executive Officer pursuant to Rule 13a-14(a)/ 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Provided herewith
31.2	Certification by Principal Financial Officer pursuant to Rule 13a-14(a)/ 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Provided herewith
32.1**	Certification by Principal Executive Officer and Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	Provided herewith
101.INS	XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document	Provided herewith
101.SCH	XBRL Taxonomy Extension Schema Document	Provided herewith
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document	Provided herewith
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document	Provided herewith
101.LAB	XBRL Taxonomy Extension Label Linkbase Document	Provided herewith
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document	Provided herewith
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)	Provided herewith

† Portions of the exhibit have been omitted pursuant to a request for confidential treatment pursuant to Rule 24b-2 promulgated under the Exchange Act. The omitted information has been filed separately with the SEC.

* Denotes a management contract or compensatory plan or arrangement.

** The certification attached as Exhibit 32.1 that accompanies this Form 10-K is not deemed filed with the SEC and is not to be incorporated by reference into any filing of NeoGenomics, Inc. under the Securities Act or the Exchange Act, whether made before or after the date of this Form 10-K, irrespective of any general incorporation language contained in such filing.

ITEM 16. FORM 10-K SUMMARY

None.

SIGNATURES

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

Date: February 25, 2021

NEOGENOMICS, INC.

By: /s/ Douglas M. VanOort
Name: Douglas M. VanOort
Title: Chairman of the Board and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signatures	Title(s)	Date
/s/ Douglas M. VanOort Douglas M. VanOort	Chairman of the Board and Chief Executive Officer (Principal Executive Officer)	February 25, 2021
/s/ Kathryn B. McKenzie Kathryn B. McKenzie	Chief Financial Officer (Principal Financial Officer)	February 25, 2021
/s/ Cynthia J. Dieter Cynthia J. Dieter	Chief Accounting Officer and Controller (Principal Accounting Officer)	February 25, 2021
/s/ Lynn A. Tetrault Lynn A. Tetrault	Lead Director	February 25, 2021
/s/ Bruce K. Crowther Bruce K. Crowther	Director	February 25, 2021
/s/ Raymond R. Hipp Raymond R. Hipp	Director	February 25, 2021
/s/ Steven C. Jones Steven C. Jones	Director	February 25, 2021
/s/ Michael A. Kelly Michael A. Kelly	Director	February 25, 2021
/s/ Rachel A. Stahler Rachel A. Stahler	Director	February 25, 2021