NEOGENOMICS INC
Form 10-K
March 14, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2016

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:	Name of each exchange on which registered:
Common Stock, par value $0.001 per share	NASDAQ Capital Market

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 and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted 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 and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer	Accelerated Filer
Non-accelerated filer (Do not check if smaller reporting company)	Smaller reporting company

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, 2016, the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was approximately $573.9 million, based on the closing price of the registrant's common stock of $8.04 per share on June 30, 2016.

The number of shares outstanding of the registrant's Common Stock, par value $0.001 per share, as of March 09, 2017: 78,822,928

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Proxy Statement for its 2017 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, 2016

Table of Contents

NeoGenomics, NeoLAB, NeoTYPE and Multiomyx are our registered trademarks, and FlexREPORT is our trademark. Any other trademarks, registered marks and trade names appearing in this annual report on Form 10-K are the property of their respective holders. All other trademarks, trade names and service marks appearing in this annual report are the property of their respective owners.

NEOGENOMICS, INC.

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 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 implement our business strategy;
- 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, 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 integrate future acquisitions and costs related to such acquisitions;
- The impact of internalization of testing by customers;
- 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;
- The accuracy of our estimates regarding reimbursement, expenses, future revenues and capital requirements.

These forward-looking statements represent our management's beliefs and assumptions only as of the date of this Annual Report. You should read this Annual Report and the documents that we reference in this Annual Report and have filed as exhibits, completely and with the understanding that our actual future results may be materially different from what we expect.

Except as required by law, we assume no obligation to update these forward-looking statements publicly, or to update the reasons actual results could differ materially from those anticipated in these forward-looking statements, even if new information becomes available in the future.

NEOGENOMICS, INC

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".

Overview

We operate a network of cancer-focused genetic testing laboratories in the United States. Our mission is to improve patient care through exceptional genetic and molecular 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, 2016, the Company has laboratory locations in Ft. Myers and Tampa, Florida; Aliso Viejo, Fresno, Irvine, and West Sacramento, California; Houston, Texas and Nashville, Tennessee, and currently offers the following types of genetic and molecular testing services:

a) Cytogenetics - the study of normal and abnormal chromosomes and their relationship to disease. It involves looking at the chromosome structure to identify changes from patterns seen in normal chromosomes. Cytogenetic studies are often utilized to answer diagnostic, prognostic and predictive questions in the treatment of hematological malignancies.
b) Fluorescence In-Situ Hybridization ("FISH") - a branch of cancer genetics that focuses on detecting and locating the presence or absence of specific DNA sequences and genes on chromosomes. FISH helps bridge abnormality detection between the chromosomal and DNA sequence levels. 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 a number of gene alternations, such as amplification, deletions, and translocations.
c) Flow cytometry - a rapid way to measure the characteristics of cell populations. Cells from peripheral blood, bone marrow aspirate, lymph nodes, and other areas 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 cell surface antigens and are used to identify malignant cell populations. Flow cytometry is typically performed in diagnosing a wide variety of leukemia and lymphoma neoplasms. Flow cytometry is also used to monitor patients through therapy to determine whether the disease burden is increasing or decreasing, otherwise known as minimal residual disease monitoring.
d) Immunohistochemistry ("IHC") and Digital Imaging – Refers to the process of localizing proteins in cells of a tissue section and relies on the principle of antibodies binding specifically to antigens in biological tissues. IHC is widely used in the diagnosis of abnormal cells such as those found in cancerous tumors. Specific surface cytoplasmic or nuclear markers are characteristic of cellular events such as proliferation or cell death (apoptosis). IHC is also widely used to understand the distribution and localization of differentially expressed proteins. Digital imaging allows clients to see and utilize scanned slides and 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 cancer diagnostic tool focusing on the analysis of DNA and RNA, as well as the structure and function of genes at the molecular level. Molecular testing employs multiple technologies

including DNA fragment length analysis, real-time polymerase chain reaction ("RT-PCR") RNA analysis, bi-directional Sanger sequencing analysis, and Next-Generation Sequencing ("NGS").

f) Pathology consultation - services provided for clients in which our pathologists review surgical samples on a consultative basis. NeoGenomics expert pathologists often assist our client pathologists on their most difficult and complex cases. NeoGenomics is one of a few laboratories in the country with an electron microscopy lab which enables us to analyze complex renal cases.

Clinical Cancer Testing Services

The 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.

NEOGENOMICS, INC.

ITEM 1. BUSINESS (Continued)

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.

In addition, we may directly serve oncology, dermatology, urology and other clinician practices that prefer to have a direct relationship with a laboratory for cancer-related genetic and molecular 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 and Clinical Trials

Our Pharma Services division supports pharmaceutical firms in their drug development programs by supporting various clinical trials. 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 provide key analysis and insights back to the sponsors.

Our Pharma Services and Clinical Trials group 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 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 and Clinical Trials 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.

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 lab 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.

NEOGENOMICS, INC.

ITEM 1. BUSINESS (Continued)

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 compete in the Clinical Pathology testing market.

The field of cancer genetics is evolving rapidly and new tests are being 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 allows clinicians to know if a patient will or will not respond to certain medications like Herceptin, Keytruda 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.

We estimate that the United States market for genetic and molecular testing is divided among approximately 400 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 that the remainder of the market is quite fragmented and that less than 20 laboratories market their services nationally. We estimate that the top 20 laboratories account for approximately 50% of market revenues for genetic and molecular testing.

We 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. We estimate a $10-12 billion total market opportunity for cancer testing in the United States, and we estimate that about $5-7 billion of this market is made up of genetic and molecular testing with the remaining portion derived from more traditional anatomic pathology testing services that are complementary to and often ordered with the genetic and molecular testing services we offer.

2017 Focus Areas: Develop High Performance Culture, Inspire & "Own" Quality, Accelerate Growth and Advance Our Strategy

Over the past several years, NeoGenomics has experienced rapid growth including organic growth from offering new tests to existing customers, growth from gaining market share from our competitors, and growth from acquisitions. We expect to continue to grow our business in 2017 and are focused on several initiatives to continue to build our company to be the World's leading cancer testing and information company.

Develop our High Performance Culture

We are building our high performance culture by empowering our employees and investing in their growth. We are providing skill based training, education, and mentoring our supervisors and managers to allow them to grow within the Company. We communicated career opportunities and performance objectives and hold each employee accountable for their own development. Teamwork is highly encouraged through the use of team performance incentive plans as well as other meaningful recognition and rewards. To cultivate teamwork we are committed to improving communication by providing better tools for today's connected society. Our organization uses weekly employee surveys and takes actions based on the feedback from those surveys. We believe that a culture of engaged employees provides superior service to our clients and their patients battling cancer. We have employee retention targets that are set each year, and we believe our employee retention rate is above average for the laboratory industry. Recruiting and retaining talented employees is critical in the fast moving field of cancer diagnostics.

NEOGENOMICS, INC.

ITEM 1. BUSINESS (Continued)

Inspire and "Own" Quality

Since the acquisition of Clarient, Inc. and its wholly owned subsidiary Clarient Diagnostic Services, Inc. (together "Clarient") we've focused on combining the very best of both NeoGenomics and Clarient testing menus and services. We've had functional teams work through every part of the business to ensure that we were able to maintain our high level of quality and create best practices throughout our organization. Maintaining quality laboratory operations and service is enabling us to retain existing clients while adding new ones.

We have a variety of initiatives designed to further enhance our company-wide quality program, provide training on the importance of quality, reinforce our quality principals, and recognize individuals and teams for providing quality service. By promoting and reinforcing quality principles, we believe we can strengthen our core processes. Our focus on continuous improvement, first time quality and the work of our best-practice teams will enable us to continue reducing our cost per test as we have steadily over the past several years.

In 2016, we began work on our next generation Laboratory Information System, or LIS and our information technology team is working to complete this LIS system for certain key areas in 2017. We believe the new LIS system will help to drive improvements in efficiencies in several laboratory areas and will allow for further automation and operational efficiencies. It will also enable our Pharma services clients the ability to track each step through the laboratory process.

We've been working hard to renovate our Aliso Viejo, CA laboratory and plan to consolidate our Irvine Lab facility into the Aliso Viejo Lab facility by the second quarter of 2017. We expect to achieve significant economies of scale and operating efficiencies once we have consolidated our two facilities.

Accelerate Profitable Growth

Our plans for 2017 include many initiatives to continue our strong organic growth by gaining market share, introducing new tests, and by expanding our Pharma business. Through the acquisition of Clarient we have significantly expanded our pharma services business, and plan to develop it further by creating an international presence and incorporating new technologies. Also, as a result of the Clarient acquisition, we have expanded our sales team and now offer our services in geographic areas where we did not previously have sales representation. We believe, our highly trained sales team has been successful in competing against other laboratories because of our exceptional service levels, and because we have one of the broadest and most comprehensive test menus in our industry. Our broad menu of molecular and immunohistochemistry testing has helped make us a "one stop shop" for many clients who like the fact that all of their testing can be sent to one laboratory.

We currently perform comprehensive analyses for hematopoietic cancers such as leukemia and lymphoma (blood and lymphoid tumors) as well as solid tumors such as breast, lung, colon, and bladder cancers. Our sales team is experienced with the scientific complexity and medical necessity of our testing services, and understands the needs of our client pathologists and oncologists. We will continue to pursue market share gains by providing high complexity, cancer-related laboratory testing services to hospitals, community-based pathology practices, academic centers, and

clinicians throughout the United States.

Our growth has also been aided by strong client retention. We believe our client retention success is due to our strong service levels, our “tech-only” service offerings, and a culture of customer focus in which our engaged employees seek to deliver highest customer satisfaction possible. Our strong service levels are reinforced by a disciplined management process with a system of detailed measures and metrics to ensure committed turnaround times and customer service. Our broad menu of molecular and immunohistochemistry testing has helped make us a “one stop shop” for many clients who like the fact that all of their testing can be sent to one laboratory.

In early 2017, we re-branded and created a new logo. We intend to implement strategic marketing plans to further develop our brand and build brand awareness. We have re-designed our trade show booth incorporating our new logo and plan to improve new test launches by using social media to improve brand awareness. We believe by executing and developing our brand we will achieve growth in new and existing markets.

We also look for opportunities to grow our business through mergers and/or acquisitions. We 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 timeframe. In 2015 we acquired Clarient which specialized in advanced oncology diagnostic services, this acquisition has enabled NeoGenomics to broaden its offering of innovative cancer diagnostic tests to hospitals and physicians across the country, and to accelerate its growth in the fast-growing worldwide market for pharmaceutical clinical trials and research. Complementary product offerings and expanded

NEOGENOMICS, INC.

ITEM 1. BUSINESS (Continued)

geographical reach of the combined company will provide customers with substantial benefits and create a significantly larger and more diversified provider of precision oncology diagnostics. The Clarient transaction is a good example of the type of acquisition opportunity we will consider in the future.

Advance Our Strategy

We are committed to being an innovative leader and believe this has been and will be a key factor in our growth. We plan to accomplish this goal through strategic actions designed to: 1) advance the technology we use in our laboratories, 2) evaluate, develop and deploy new products and services, and 3) evaluate and experiment with value-based payment models in collaboration with oncology groups and other health care providers.

Our broad and innovative testing menu allows us to serve community-based pathologists and clinicians as well as pharmaceutical customers and nationally recognized academic centers. Over the past year, we have developed approximately 50 new molecular oncology tests and disease-specific panels, and we believe we have one of the most comprehensive oncology test menus of any laboratory in the world. By launching new medically significant and necessary tests at a steady rate, we are able to provide cutting-edge developments in molecular genetics with clients and their patients and are developing our reputation as a leader in the field of molecular oncology. In many cases, customers who begin using us because of our new innovative test offerings also begin to refer portions of their other testing.

Our comprehensive test offering allows us to be a one-stop shop for all of the oncology testing needs of our clients. Pharmaceutical firms are also attracted to our laboratory based on extensive test menu, and based on our knowledgeable research and development team as well as our ability to offer tests at the forefront of medical developments.

We continue to pursue opportunities to offer “liquid biopsy” testing, particularly for hematological diseases. We have launched twelve NEOLAB™ liquid biopsy tests for hematological disease using next generation sequencing and other advanced molecular technologies. Liquid Biopsy testing uses cell-free circulating DNA and RNA found in blood plasma to identify molecular abnormalities in the bone marrow without the need for a bone marrow biopsy. The technology is based on the concept that hematologic cells release their DNA, RNA, and protein into circulation as the cells are immersed in blood. The cell-free circulating DNA, RNA and protein are referred to as exosomes, microvesicles, apoptotic bodies or simply DNA- or RNA-protein complexes. Our new tests use proprietary methods to extract these circulating nucleic acids and analyze them using next generation sequencing and advanced methods in order to evaluate molecular abnormalities present in hematological cancers.

We also continue to develop new testing approaches by combining the capabilities of a variety of testing technologies. Our NeoTYPE™ multimodality testing is somewhat unique in the industry and combines immunohistochemistry testing, molecular testing, and FISH testing into disease-specific panels that are very effective and efficient for improving patient care. We introduced a number of NeoTYPE™ molecular panels that combine multiple molecular tests into multi-gene panels targeting specific types of cancer to help pathologists and oncologists determine cancer subtypes on difficult cases. Managed care payers have expressed interest in the more targeted panels as a more cost effective alternative to ordering large whole genome panels that include genes that have never been tied to a particular type of cancer.

We continue to develop our NeoLAB (Liquid Biopsy) Prostate cancer test that is performed on blood plasma and urine rather than on prostate tissue biopsies. There are two goals for this test: 1) to diagnose the presence of cancer in patients and 2) to distinguish high-grade from low-grade cancer in patients with prostate cancer.

Competitive Strengths

Turnaround Times

We strive to provide industry leading turnaround times for test results to our clients nationwide. By providing information to our clients in a rapid manner, physicians can begin treating their patients as soon as possible. We believe our historical average 4-5 day turnaround time for our cytogenetics testing services, 3-4 day turnaround time for FISH testing services, 7 day turnaround time for molecular testing, and 1 day turnaround time for flow cytometry and pathology testing services are industry-leading benchmarks for national laboratories.

NEOGENOMICS, INC.

ITEM 1. BUSINESS (Continued)

Our consistent timeliness of results is a competitive strength and a driver of additional testing requests by our 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. We believe that fast turnaround times are a key differentiator versus other national laboratories, and our clients often cite them as a key factor in their relationship with us.

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, 2016, we employed, or are contracted with approximately 35 full-time M.D.s and Ph.Ds. The addition of Clarient's pathology team has added increased depth to our medical team, and has enhanced our ability to service a wider range of specialties.

Extensive Tech-Only Service Offerings

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 FISH, flow cytometry and other tech-only service offerings allow properly trained and credentialed community-based pathologists to extend their own practices by performing professional interpretations services, which allows them to better service the needs of their local clientele without the need to invest in the lab equipment and personnel required to perform the technical component of genetic and molecular testing.

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 believe this innovative approach to serving the needs of pathology clients' results in longer term, more committed client relationships that are, in effect, strategic partnerships. Our extensive "tech-only" service offerings have differentiated us and allowed us to compete more effectively against larger, more entrenched competitors in our niche of the industry.

Global Service Offerings

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 the testing results for them. 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. Many of our tech-only clients also rely on our medical team for difficult or challenging cases by ordering our global testing services on a case-by-case basis or our medical team can serve as a backup to support our clients who need help to

satisfy the continued and demanding requirements of their practice. Our reporting capabilities allow for all relevant case data from our global services to be captured in one summary report. When providing global services, NeoGenomics bills for both the technical and professional component of the test, which results in a higher reimbursement level.

Client Education Programs

We believe we have one of the most extensive client education programs in the genetic and molecular testing industry. We train pathologists how to use and interpret genetic testing services so that they can better interpret technical data and render their diagnosis.

Our educational programs include an extensive library of on-demand training modules, online courses, and custom tailored on-site training programs that are designed to prepare clients to utilize our tech-only services. We offer training and information on new cancer tests and the latest developments in the field of molecular genetic testing. Each year, we also regularly sponsor seminars and webinars on emerging topics of interest in our field. Our medical staff is involved in many aspects of our training programs.

NEOGENOMICS, INC.

ITEM 1. BUSINESS (Continued)

Superior Testing Technologies and Instrumentation

We use some of the most advanced testing technologies and instrumentation in the laboratory industry. The use of next generation sequencing in our molecular testing allows us to detect multiple mutations and our proprietary techniques allow us to achieve high sensitivity in our next generation sequencing testing. In addition, we use high sensitivity Sanger sequencing, RNA and DNA quantification, SNP/Cytogenetic arrays, Fragment Length analysis, and other molecular testing technologies. Our automated FISH and Cytogenetics tools allow us to deliver the highest quality testing to our clients and our flow cytometry laboratory uses 10-color flow cytometry analysis technology on a technical-only basis. We are one of only a few laboratories with an electron microscopy department for diagnosis in complex renal case analysis. NeoGenomics is continually testing new laboratory equipment in order to remain at the forefront of new developments in the testing field.

Laboratory Information System

We believe we have a state-of-the-art LIS that interconnects our locations and provides flexible reporting solutions to clients. This system allows us to standardize testing and deliver uniform test results and images throughout our network, regardless of the location that any specific portion of a test is performed within our network. This allows us to move specimens and image analysis work between locations to better balance our workload. Our LIS also allows us to offer highly specialized and customizable reporting solutions to our tech-only clients. For instance, our "tech-only" FISH and flow cytometry applications allow our community-based pathologist clients to tailor individual reports to their specifications and incorporate only the images they select and then issue and sign-out such reports using our system. Our customized reporting solution also allows our clients to incorporate test results performed on ancillary tests not performed at NeoGenomics into summary report templates. This FlexREPORT feature has been well-received by clients.

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), and we have a separate sales team for our BioPharma Services division. 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 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.

Geographic Locations

Many high complexity laboratories within the cancer testing niche have frequently operated a core facility on either the West Coast or the East Coast of the United States to service the needs of their customers around the country. We believe our clients and prospects desire to do business with a laboratory with national breadth and a local presence. We have eight facilities including five large laboratory locations in Fort Myers, Florida, West Sacramento, California,

Aliso Viejo, California, Irvine, California and Houston Texas. We also have three smaller laboratory locations in Fresno, California, Nashville, Tennessee and Tampa, Florida. Our objective is to “operate one lab with multiple locations” in order to deliver standardized, high quality, test results. We have recently completed renovations in our Aliso Viejo facility and have plans to close our Irvine laboratory and transition all Irvine employees and tests to be performed from the much larger Aliso Viejo laboratory in February of 2017. We intend to continue to develop and open new laboratories and/or expand our current facilities as market situations dictate and business opportunities arise.

Scientific Pipeline

In the past few years our field has experienced a rapid increase in tests that are tied to specific “genomic pathways”. These predictive tests are typically individualized for a small sub-set of patients with a specific subtype of cancer. The therapeutic target in the genomic

pathway is typically a small molecule found at the level of the cell surface, within the cytoplasm and/or within the nucleus. These genomic pathways, known as the “Hallmarks of Cancer”, contain a target-rich environment for small-molecule “anti-therapies”. These anti-therapies target specific mutations in the major cancer pathways such as the Proliferation Pathway, the Apoptotic Pathway, the Angiogenic Pathway, the Metastasis Pathway, and the Signaling Pathways and Anti-Signaling Pathways.

NEOGENOMICS, INC.

ITEM 1. BUSINESS (Continued)

Sales and Marketing

We continue to grow our testing volumes and revenue due to our ongoing investment in sales and marketing. We have expanded the size of our sales team and are investing more in trade shows and in our overall marketing budget. We plan to continue to develop and execute strategic marketing plans throughout 2017. Our clinical genetic revenue and cost of revenue metrics are as follows (testing revenue/cost of revenue in thousands) for the fiscal years ended December 31:

	December 31,			
	2016	2015	% Change	
Requisitions received (cases)	361,220	139,195	159.5	%
Number of tests performed	563,132	221,191	154.6	%
Average number of tests/requisition	1.56	1.59	(1.9	%)
Total clinical genetic testing revenue	$214,708	$90,506	137.2	%
Average revenue/requisition	$594	$650	(8.6	%)
Average revenue/test	$381	$409	(6.8	%)
Cost of revenue	$113,373	$48,783	132.4	%
Average cost/requisition	$314	$350	(10.3	%)
Average cost/test	$201	$221	(9.0	%)

Clinical genetic tests exclude tests performed for Pharma Services customers and tests performed by Path Logic.

Our 137.2% growth in clinical revenue year-over-year as well as the 159.5% increase in case volume is primarily the result of the increase in new clients associated with our acquisition of Clarient in 2015. In addition, we had a large increase in our PD-L1 testing in 2016. Our expanded sales team extended our service offering to areas of the country where we did not previously have sales representation and helped us add new clients. In addition, we believe that the increase in revenues is the direct result of our efforts to innovate and develop one of the most comprehensive molecular testing menus in the industry. Customers increasingly see us as a one-stop-shop able to handle all of their cancer testing needs.

We believe that the market for our services is growing. As new tests and new therapies come onto the market a companion diagnostic test often comes onto the market as well. For example, the new and rapidly-growing PDL1 test is a result of the introduction of a new immuno-oncology therapy. The overall market growth, fueled in part by new tests, is contributing to our company growth

Our cost of clinical revenue increased approximately 132% year-over-year, primarily due to our increase in testing volume. As a percentage of revenue, costs decreased slightly. The changes in volume are largely attributable to the

increase in new clients as a result of the Clarient acquisition in 2015.

Cost per requisition as well as cost per clinical test decreased by 10.3% and 9.0% respectively, year-over-year. This decrease was largely due to improved operating efficiencies realized as a result of the acquisition. In addition, this decrease is attributable to product mix changes.

Our best practice teams work closely with our information technology team to re-design our systems and processes to improve efficiencies. We continue to focus on improving our laboratory operations in order to continue to drive further improvements in our cost per test. We believe that we will continue to realize a reduction in average cost per requisition in future periods based on the activities of our best practices teams. We expect that reductions in average cost-per-test will exceed further reductions in average revenue-per-test over the near term, and gross margins will expand as a result.

Seasonality

The majority of our testing volume is dependent on patients being treated by hematology/oncology professionals and other healthcare providers. The volume of our testing services generally declines 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 tornados in certain regions, consequently reducing revenues and cash flows in any affected period. Therefore, comparison of the results of successive periods may not accurately reflect trends for future periods.

NEOGENOMICS, INC.

ITEM 1. BUSINESS (Continued)

Competition

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 in the United States are numerous and include major national medical testing laboratories, hospital laboratories and in-house physician laboratories. Our principal competitors are Quest Diagnostics and Laboratory Corporation of America. 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.

Suppliers

The Company orders its laboratory and research supplies from large national laboratory supply companies such as Illumina, Fisher Scientific, Dako (Agilent), Life Technologies, Metasystems, Leica, Ventana (Roche), Abbott Molecular, VWR and Beckman Coulter (Danaher). We do not believe any disruption from any one of these suppliers would have a material effect on our business.

Dependence on Major Clients

We market our services to pathologists, oncologists, urologists, other clinicians, hospitals and other clinical laboratories throughout the United States. 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, 2016 and 2015, no single client accounted for more than 5% of revenue. For the year ended December 31, 2014, a large oncology practice with multiple locations in Florida accounted for 10.1% of total revenue.

Payer Mix

The following table reflects our estimate of the breakdown of net revenue by type of payer for the fiscal years ended December 31, 2016, 2015 and 2014:

	2016		2015		2014	
Medicare and other government	16	%	21	%	20	%
Commercial insurance	25	%	21	%	27	%
Client direct billing	56	%	55	%	50	%
Patient, other and year-end accruals	3	%	3	%	3	%
Total	100	%	100	%	100	%

Our proportion of client direct billing has increased over the years shown above, as more payers, including private commercial insurances and Medicare Advantage plans, are practicing “consolidated payment” or “bundled payment” models where they pay the hospitals a lump sum, which is intended to include laboratory testing. This reflects an increase in the amount of risk sharing that CMS and other private payers are encouraging providers such as hospital systems to undertake. We anticipate a gradual increase in the percentage of client direct billing in the coming years.

Trademarks

The “NeoGenomics” and “Clarient” names and logos have been trademarked with the United States Patent and Trademark Office. We have also trademarked or have applications pending for the brand names NeoFISH, NeoFLOW, NeoSITE, NeoArray, NeoTYPE, NeoSCORE, NeoLAB and NeoLINK. We have also trademarked the marketing slogans, “When time matters and results count” and “Time matters, results count.”

NEOGENOMICS, INC.

ITEM 1. BUSINESS (Continued)

Insurance

We maintain professional liability and 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.

Number of Employees

As of December 31, 2016, we had approximately 938 full-time equivalent employees and contracted pathologists. The Company also had approximately 30 temporary contract personnel at December 31, 2016. Our employees are not represented by any union and we believe our employee relations are good.

Government Regulation

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

Clinical Laboratory Operations

Licensure and Accreditation

The Company operates clinical laboratories in Florida, Tennessee, Texas and California. The laboratories are licensed as required by the states in which they are located. In addition, the laboratories in Fort Myers, Florida, Aliso Viejo,

California, Irvine, California and Nashville, Tennessee are licensed by the State of New York as they accept clinical specimens obtained in New York. All of our laboratories are certified in accordance with the Clinical Laboratory Improvement Amendments, as amended ("CLIA"). Under CLIA, the U.S. Department of Health and Human Services ("HHS") establishes quality standards for each category of testing performed by the laboratory. The categories of testing include waived, moderate complexity and high complexity. NeoGenomics' laboratories are categorized as high complexity. Five of the eight site locations for NeoGenomics' laboratories are also accredited by the College of American Pathologists, or CAP and actively participate in CAP's proficiency testing programs for all tests offered by the Company. Our Tampa, Florida and Fresno, California facilities are read-only laboratories and therefore, wouldn't qualify for CAP accreditation. Our Houston, Texas location supports clinical trials and pharma services and has applied for CAP accreditation and we are currently awaiting our accreditation inspection at this location. Proficiency testing programs require the participating laboratories to test specimens that they receive from the testing entity and return the results. The testing entity, conducting an approved program, analyzes the results returned and provides to the Company a quality control report assessing the results. An important component of a quality assurance program is to establish whether the laboratory's test results are accurate and valid.

NEOGENOMICS, INC.

ITEM 1. BUSINESS (Continued)

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

Quality of Care

Our mission is to improve patient care through quality cancer genetic diagnostic services. By delivering exceptional service and innovative solutions, we aspire to become the world's leading cancer and information company. 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 Medical Team, Company management and, if necessary, the Director for Quality Systems, the Compliance Department or Human Resources Department. 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 Program

The health care industry is highly regulated and scrutinized with respect to fraud, abusive billing practices and improper financial relationships between health care companies and their referral sources. The Office of the Inspector General of HHS, or the OIG has published compliance guidance, including the Compliance Program Guidance for Clinical Laboratories in August of 1998, and advisory opinions. The Company has implemented a robust Compliance Program which is overseen by our Board of Directors. Its objective is to ensure compliance with the myriad federal and state laws, regulations and governmental guidance applicable to our business. Our program consists of training/education of employees and monitoring and auditing Company practices. The Board of Directors has formed a Compliance Committee 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 Director of Compliance reports directly to the Compliance Committee.

Hotline

As part of its Compliance Program, the Company provides a hotline for employees who wish to anonymously or confidentially report suspected violations of our codes of conduct, policies/procedures, or laws and regulations. Employees are strongly encouraged to report any suspected violation if they do not feel the problem can be appropriately addressed through the normal chain of command. The hotline does not replace other resources available to 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 Director of Compliance 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.

Laboratory Developed Tests (“LDTs”):

The federal Food and Drug Administration, (“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, or 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 the panoply of 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. In October 2014, the FDA published a draft guidance setting forth its proposed framework and timetable for regulating LTDs. The FDA received numerous comments both in support of and opposed to the draft guidance. In November 2016, FDA announced that it would not be finalizing the draft guidance. On January 13, 2017, FDA published a non-binding “Discussion Paper” to purportedly “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. It remains uncertain whether FDA's proposed approach will be adopted by FDA or Congress. It is also uncertain what position the new administration will adopt with respect to LDTs. It is possible that the FDA could adopt a new policy, or Congress could enact new legislation, that 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.

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 ("federal 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 space, equipment leases, professional or technical services or anything else of value.

The federal 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. Violations of the federal AKS may result in substantial civil or criminal penalties, including criminal fines of up to $25,000, imprisonment of up to five years, civil penalties under the federal CMP Law of up to $50,000 for each violation, plus three times the remuneration involved, civil penalties under the federal False Claims Act of up to $11,000 for each claim submitted, plus three times the amounts paid for such claims and exclusion from participation in the Medicare and Medicaid programs.

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

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 to 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 federal AKS, and state anti-kickback and fee splitting laws of the states in which we operate, however, if government regulatory 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.

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 lab 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. These billing arrangements may also implicate the federal Stark Law and the federal and state anti-kickback statutes.

Federal law authorizes the Secretary of HHS to suspend or exclude providers from participation in the Medicare and Medicaid programs if providers charge Medicare or state Medicaid programs fees "substantially in excess" of their "usual charges." The OIG has stated in commentary to various final and proposed regulations its position that this statute has limited applicability to the current Medicare reimbursement system, though the OIG has also commented "we note that ancillary services, such as laboratory tests and drugs, would remain subject to these regulations, even when furnished by physicians." [F.R., Vol. 68, No. 178, September 15, 2003 at

53940]. As such, application of this prohibition to the Company's business is not clear, but the government could scrutinize the Company's pricing and billing arrangements and determine to apply this law.

The Centers for Medicare and Medicaid Services promulgated, in 2009, a revision to the regulation that prohibits the mark up of purchased diagnostic services [42 C.F.R. §414.50] (the "Anti-Markup Rule"). The Anti-Markup Rule prohibits a physician or other supplier from marking up the price paid for the technical or professional component of a diagnostic test that was ordered by the billing physician or supplier and which was performed by a physician who does not share a practice with the billing physician or supplier. The billing physician is prohibited from billing the Medicare program an amount greater than the lesser of: (i) the performing supplier's net charge to the billing physician; (ii) the billing physician's actual charge; or (iii) the fee schedule amount for the test that would be allowed if the performing supplier billed directly.

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.

Physician Self-Referral Laws

The federal law referred to as the "Stark Law", named after U.S. Representative Fortney "Pete" Stark, prohibits physicians who have a financial relationship with an entity from referring Medicare and Medicaid patients to that entity for the provision of designated health services unless the transaction meets an exception to the law. 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 structure 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. 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 $15,000 for each violation and $100,000 for each circumvention arrangement or scheme. Other implications of a Stark Law violation may include criminal penalties, exclusion from Medicare and Medicaid programs, and potential False Claims Act liability, including via "qui tam" action. 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. For example, the Florida Patient Self-Referral Act of 1992, as amended, (the "Florida Self-Referral Act") is similar to the Stark law, but is narrower in some respects and broader in others. In addition to services reimbursed by Medicaid or government payers, often these state laws and regulations can encompass services reimbursed by private payers 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 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. A violation of the federal False Claims Act is punishable by a civil penalty of $5,500 to $11,000 for each separate false claim plus three times the amount of damages sustained by the government. Further, False Claims Act liability may lead to exclusion from participation in Medicare, Medicaid and other federal healthcare programs. 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 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 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 False Claims Act has been an effective enforcement tool for the federal government. Many states have enacted similar false claims acts as well.

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

Confidentiality and Security of Personal Health Information

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

The American Recovery and Reinvestment Act ("ARRA") recently enacted the HITECH Act which extends the scope of HIPAA to permit enforcement against business associates for a violation, establishes new requirements to notify the Office for Civil Rights of HHS of a breach of HIPAA, and allows the Attorneys General of the states to bring actions to enforce violations of HIPAA. Rules implementing various aspects of HIPAA are continuing to be promulgated. With respect to these rules, commencing 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. These laws vary widely. Penalties for violation include sanctions against a laboratory's licensure as well as civil or criminal penalties. Additionally, private individuals may have a right of action against the Company for a violation of a state's privacy laws. We believe we are in material compliance with current state laws regarding the confidentiality of health

information and will continue to monitor and comply with new or changing state laws.

The Fair and Accurate Credit Transactions Act of 2003, enacted on Dec. 4, 2003, directed the Federal Trade Commission to implement regulations to protect consumers against identity theft. The Federal Trade Commission issued what are referred to as the “Red Flag Rules”, but the effective date for enforcement has been delayed several times. The Red Flag Rules are now subject to enforcement as of January 1, 2012. The Red Flag Program Clarification Act of 2010 (“RFPCA”) gave some relief to health care providers by changing the definition of “creditor”, thereby narrowing the application to health care providers who do not otherwise obtain or use consumer reports or furnish information to consumer reporting agencies in connection with a credit transaction. Health care providers who act as a “creditor” to any of its patients with respect to a “covered account” are required to implement an identity theft protection program to safeguard patient information. A creditor includes any entity that regularly in the course of business obtains or uses consumer reports in connection with credit transactions, furnishes information to a consumer reporting agency in connection with a credit transaction, or advances funds to or on behalf of a person based on the person’s obligation to repay the funds or repayable from specific property pledged by or on behalf of the person. But, a creditor, as defined in the RFPCA, that advances funds on behalf of a person for expenses incidental to a services provided by the creditor to that person is not subject to the Red Flag Rules. The Company has developed a written program designed to identify and detect the relevant warning signs – or “red flags” – of identity theft and establish appropriate responses to prevent and mitigate identity theft in order to comply with the Red Flag Rules. We are also developing a plan to update the program, and the program will be managed by senior management staff under the policy

NEOGENOMICS, INC.

ITEM 1. BUSINESS (Continued)

direction of our Board of Directors. The Company intends to take such steps as necessary to determine the extent to which the Red Flag Rules apply to it and to take such steps as necessary to comply.

Executive Officers of the Company

The following table sets forth certain information regarding members of the Board of Directors and our executive officers as of March 1, 2017:

Name	Age	Position
Board of Directors:		
Douglas M. VanOort	61	Chairman of the Board of Directors and Chief Executive Officer
Steven C. Jones	53	Executive Vice President, Chief Compliance Officer, Board Member
Kevin C. Johnson	62	Board Member
Raymond R. Hipp	74	Board Member
Bruce K. Crowther	65	Board Member
William J. Robison	81	Board Member
Lynn A. Tetrault	54	Board Member
Alison L. Hannah	56	Board Member
Kieran P. Murphy	54	Board Member
Other Executives:		
George A. Cardoza	55	Senior Vice President, Chief Financial Officer
Dr. Maher Albitar	61	Senior Vice President, Chief Medical Officer and Director of Research & Development
Dr. Steven Brodie	56	President, Pharma Services Division
Robert J. Shovlin	46	President, Clinical Services Division
Mark A. Machulcz	53	Vice President of Operations
Steven A. Ross	52	Vice President, Chief Information Officer
Jennifer M. Balliet	39	Vice President, Chief Culture Officer
Edwin F. Weidig III	47	Controller, Clinical Division Chief Financial Officer and Principal Accounting Officer

Members of the Company’s Board of Directors are elected at the annual meeting of stockholders and hold office until their successors are elected. The Company’s officers are appointed by the Board of Directors and serve until their resignation or removal by the Board and are subject to employment agreements, if any, approved and ratified by the Board. There are no family relationships between any of our officers or directors.

In addition, pursuant to the Investor Board Rights, Lockup and Standstill Agreement dated December 30, 2015, GE Medical Systems has the right to designate one individual for approval and we are required to appoint such designee, as a director to our Board of Directors. Kieran Murphy, President and Chief Executive Officer of GE Healthcare Life Sciences was appointed to the Board pursuant to such agreement.

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

Mr. VanOort has served as the Chairman of the Board of Directors and Chief Executive Officer of NeoGenomics since October 28, 2009. For seven months prior to October 2009, he served as Chairman of the Board of Directors, Executive Chairman and Interim Chief Executive Officer. Prior to joining NeoGenomics, Mr. VanOort was a General Partner with a private equity firm, and a Founding Managing Partner of a venture capital firm. From 1982 through 1999, Mr. VanOort served in various positions at Corning Incorporated and at its spin-off company, Quest Diagnostics, Inc. During the period from 1995 through 1999, he served as the Senior Vice President Operations for Quest Diagnostics, Inc. which was then a $1.5 billion newly formed NYSE-traded Company. During the period of 1989 to 1995, he held senior executive positions at Corning Life Sciences, Inc., including Executive Vice President. Corning Life Sciences Inc. had revenues of approximately $2 billion and was spun-off in a public transaction to create both Quest Diagnostics and Covance, Inc. From 1982 to 1989, Mr. VanOort served in various executive positions at Corning Incorporated, including Director of Mergers & Acquisitions. Mr. VanOort currently serves as a member of the Board of Directors of several privately-held companies, and is a principal owner of a privately-held retail hardware store chain. Mr. VanOort is a graduate of Bentley University.

Steven C. Jones – Executive Vice President, Chief Compliance Officer, Board Member

NEOGENOMICS, INC.

ITEM 1. BUSINESS (Continued)

Mr. Jones served as a director since October 2003, as Executive Vice President since November 4, 2016, and as Chief Compliance Officer since February 7, 2013. Mr. Jones served as Chief Financial Officer for the Company from October 2003 until November 30, 2009, and has Executive Vice President – Finance from November 30, 2009 to November 4, 2017. Mr. Jones is also the founder and Chairman of the Aspen Capital Group, a private equity investment firm, and has been President and Managing Director of Aspen Capital Advisors since January 2001. Prior to that Mr. Jones was a chief financial officer at various public and private companies and was a Vice President in the Investment Banking Group at Merrill Lynch & Co. Mr. Jones received his B.S. degree in Computer Engineering from the University of Michigan in 1985 and his MBA degree from the Wharton School of the University of Pennsylvania in 1991. He also serves as Chairman of the Board of T3 Communications, Inc. and he is a member of the Board of XG Sciences, Inc.

Kevin C. Johnson – Board Member

Mr. Johnson has served as a director since 2010. Mr. Johnson was the Chief Executive Officer for United Allergy Services, a provider of allergy testing and immunotherapy services, from September 2014 through July 2015. From January 2003 until September 2014 Mr. Johnson was retired. From May 1996 until January 2003, Mr. Johnson was Chairman, Chief Executive Officer and President of DIANON Systems, Inc., a publicly-traded cancer diagnostic services company providing anatomic pathology and molecular genetic testing services to physicians nationwide. During that time, DIANON grew annual revenues from approximately $56 million in 1996 to approximately $200 million in 2002. DIANON was sold to Laboratory Corporation of America (NYSE: LH) in January of 2003. Prior to joining DIANON in 1996, Mr. Johnson was employed by Quest Diagnostics and Quest's predecessor, the Life Sciences Division of Corning, Incorporated, for 18 years, and held numerous management and executive level positions.

Raymond R. Hipp – Board Member

Mr. Hipp has served as a director since February 2011. Mr. Hipp is a retired senior executive that has been involved in consulting work over the last few years involving mergers and acquisitions as well as being a member of a number of public company boards of directors. From July 1998 until his retirement in June 2002, Mr. Hipp served as Chairman, President and CEO of Alternative Resources Corporation, a provider of information technology outsourcing services. From August 1996 until May 1998, Mr. Hipp was the Chief Executive Officer of ITI Marketing Services, a provider of marketing services. Prior to that, Mr. Hipp held senior executive positions with several other firms. Mr. Hipp has a B.S. from Southeast Missouri State University. Mr. Hipp served on the Board of Directors and on the Audit Committee of Gardner Denver, Inc. (NYSE: GDI), an industrial manufacturing company, for over 14 years.

Bruce K. Crowther – Board Member

Mr. Crowther has served as a Director since October 2014. Mr. Crowther recently retired as President and Chief Executive Officer of Northwest Community Healthcare where he has served for the last 23 years. Northwest Community Healthcare is an award winning hospital offering a complete system of care. Mr. Crowther has a B.S. in Biology and an M.B.A. from Virginia Commonwealth University. Mr. Crowther serves on the Board of Directors of Wintrust Financial Corporation, a public company and serves on the Board of Directors of Barrington Bank and Trust which is a Wintrust Financial Corporation owned Company. He also serves as Chairman of the Max McGraw Wildlife

Foundation; a not for profit organization committed to conservation education and research.

William J. Robison – Board Member

Mr. Robison has served as a director since May 2007. Mr. Robison, who is retired, spent his entire 41 year career with Pfizer, Inc. At Pfizer, he rose through the ranks of the sales organization and became Senior Vice President of Pfizer Labs in 1986. In 1990, he became General Manager of Pratt Pharmaceuticals, a then new division of the U.S. Pharmaceuticals Group, and in 1992 he became the President of the Consumer Health Care Group. In 1996 he became a member of Pfizer's Corporate Management Committee and was promoted to the position of Executive Vice President and head of Worldwide Corporate Employee Resources. Mr. Robison retired from Pfizer in 2001. Mr. Robison was previously a board member of the University of Louisiana – Monroe, MWI Veterinary Supply Company, Inc., USO of Metropolitan New York, Inc., the Human Resources Roundtable Group, the Pharmaceutical Human Resource Council, the Personnel Round Table, and the Employee Relations Steering Committee for The Business Round Table. Mr. Robison was also a founding member of the Marine Corps Museum.

NEOGENOMICS, INC.

ITEM 1. BUSINESS (Continued)

Lynn A. Tetrault – Board Member

Mrs. Tetrault has served as a director since June 2015. Mrs. Tetrault is currently a consultant. She worked from 1993 to 2014 with AstraZeneca, PLC most recently as Executive Vice President Human Resources and Corporate Affairs. Mrs. Tetrault was responsible for all human resources strategy, talent management, executive compensation and related activities, internal and external communications, government affairs, corporate reputation and corporate social responsibility for the Company. Mrs. Tetrault has an undergraduate degree from Princeton University and a J.D. from the University of Virginia Law School. She is currently a director of Womens' Way.

Alison L. Hannah – Board Member

Dr. Hannah has served as a director since June 2015. Dr. Hannah has over 25 years' experience in the development of investigational cancer chemotherapies. Since 2000, she has served as a consultant to the pharmaceutical industry, working with over 20 companies with a focus on molecularly targeted therapy. Prior to this, she worked as Senior Medical Director at SUGEN on various compounds, including Sutent approved in kidney cancer, and Quintiles, a global Contract Research Organization. Dr. Hannah specializes in clinical development strategy, and has filed over 30 Investigational New Drug applications for new molecular entities and 7 New Drug Applications. She participates in Data Monitoring Committees, Scientific Advisory Boards and Independent Review Committees for clinical trials. She has a bachelor's degree in biochemistry and immunology from Harvard University and her medical degree from the University of Saint Andrews. She is a member of ASCO, AACR, ASH, ESMO and a Fellow with the Royal Society of Medicine.

Kieran P. Murphy – Board Member

Mr. Murphy is President and Chief Executive Officer of GE Healthcare Life Sciences, a $4.0 billion molecular medicine business that provides a broad range of industry-leading technologies and services for drug discovery, pre-clinical and clinical development and biopharmaceutical manufacturing, as well as molecular tools for therapy selection and treatment monitoring in patient care. Mr. Murphy has over twenty-five years of experience in the global life sciences and biotechnology industry. Mr. Murphy earned his bachelor's degree in 1984 from University College, Dublin. He subsequently graduated from the University of Manchester Institute of Science and Technology with a master's degree in Marketing.

George A. Cardoza – Senior Vice President, Chief Financial Officer

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

Michigan State University.

Maher Albitar, M.D. – Senior Vice President, Chief Medical Officer and Director of Research and Development

Dr. Albitar has served as Chief Medical Officer and Director of Research and Development since January 2012. From 2008 to 2011, Dr. Albitar served as the Medical Director for Hematopathology and Oncology, Nichols Institute of Quest Diagnostics, and Chief R&D Director for Hematopathology and Oncology for Quest Diagnostics, a diagnostic testing, information and services company. From 2003 to 2008, Dr. Albitar served as the Director of Hematopathology for the Nichols Institute of Quest Diagnostics. From 2005 to 2011, Dr. Albitar also served as a Board member of Associated Diagnostics Pathologists, Inc. From 1991 to 2003, Dr. Albitar held various faculty positions at The University of Texas MD Anderson Cancer Center. Dr. Albitar previously served as the Chief Medical Officer of Health Discovery Corporation (“HDC”) and is currently a member of the Board of Directors of HDC. Dr. Albitar has also served as a consultant to multiple companies. Dr. Albitar received his medical degree in 1979 from Damascus Medical School in Damascus, Syria.

NEOGENOMICS, INC.

ITEM 1. BUSINESS (Continued)

Steven Brodie, Ph.D. – President, Pharma Services Division

Dr. Brodie has served as the President of our Pharma Services Division since September, 2016. Prior to this he had served as Chief Scientific Officer of NeoGenomics since April 2015. Dr. Brodie is also the Laboratory Director for our Fort Myers, FL lab facility, a role he has held since 2014. He also has served as our Director of Molecular Genetics and Cytogenetics since 2011. Prior to joining NeoGenomics, Dr. Brodie served as a Senior Director of Cytogenetics, Assistant Director of Molecular Genetics, and Scientific Director of Maternal Serum Screening at Quest Diagnostics (Specialty Laboratories) in Valencia Ca. In addition to his clinical responsibilities, he trained Pathology residents in genetic testing for Loma Linda University Medical Center as the Affiliate Rotation Director and the University of Southern California, Keck SOM as a Clinical Assistant Professor of Pathology. Prior to joining Quest Diagnostics, he held a variety of research and clinical positions at the National Institutes of Health, University of New Mexico School of Medicine, and the University of California Los Angeles David Geffen School Of Medicine. Dr. Brodie was trained in Genetics at the University of California Los Angeles/Cedar-Sinai Medical Center medical genetics training program. He received a Ph.D. in Biomedical Sciences from the University of New Mexico School of Medicine and Clinical Molecular Genetics and Cytogenetics training at the University of California Los Angeles. Dr. Brodie is Board Certified by the American Board of Medical Genetics and Genomics and holds Directors Licenses in California, Florida, Tennessee, and New York.

Robert J. Shovlin – President, Clinical Services Division

Mr. Shovlin has served as the President of our Clinical Services Division since September, 2016. Prior to this, he had served as our Chief Growth Officer since the acquisition of Clarient in 2015. From his hire date in October 2014 until the Clarient acquisition, Mr. Shovlin served as the Chief Operating Officer of NeoGenomics. From 2012 until October 2014, Mr. Shovlin served as Chief Development officer for Bostwick Laboratories, a provider of anatomic pathology testing services targeting urologists and other clinicians, where he was responsible for Sales, Marketing, Managed Care, Business Development, and Clinical Trials. From 2005 until 2011, he served in progressively more responsible positions, including President and Chief Executive Officer, for Aureon Biosciences, Inc., a venture-backed diagnostics company focused on developing novel and proprietary prostate cancer tests. Mr. Shovlin also served as Executive Director for Anatomic Pathology and Director of Managed Care for Quest Diagnostics from 2003 until 2005, and held sales leadership positions at Dianon Systems from 1997 until 2003. Mr. Shovlin served as a Captain, Infantry Officer in the United States Marine Corps from 1992 until 1997 where he served as a Platoon and Company Commander with 1st Battalion 4th Marines and as an Instructor and Staff Platoon Commander at the Basic School. He holds a Bachelor of Science Degree from Pennsylvania State University, and a Masters of Business Administration from Rutgers University.

Mark A. Machulcz – Vice President of Operations

Mr. Machulcz has served as our Vice President of Operations since January 2016. From 2011 until our acquisition of Clarient in December 2015, he served as Vice President of International Operations at GE Healthcare, Clarient Diagnostic Services, a leading provider of comprehensive cancer-diagnostic laboratory services where he was responsible for the development and execution of the international and domestic expansion strategy for the clinical and bio pharmaceutical business. From 2009 until 2011, he served as Executive Vice President of Operations at PLUS Diagnostics, a pathology laboratory where was responsible for lab operations, customer service, logistics and

information technology. Prior to joining PLUS Diagnostics, Mr. Machulcz directed the India operations at Quest Diagnostics Incorporated, where he was involved in the launch of their clinical trials service and was responsible for clinical and Anatomical Pathology Laboratories and prior to that role he served in various other positions at Quest Diagnostics with progressive levels of responsibility. Mr. Machulcz received his Bachelor's degree in Medical Technology from St. Louis University and his Master's degree in Business Administration from Johns Hopkins University.

Steven A. Ross – Vice President, Chief Information Officer

Mr. Ross has served as Chief Information Officer since April 2013. Prior to joining the Company, Mr. Ross served as Vice President Technology at Chico’s FAS, Inc. during the period from 2003 to 2013 where he participated in the direction of all information technology resource planning, budgeting, technology associate development coaching and operation initiatives for the $2.5 billion dollar global consumer products company. Prior to that Mr. Ross worked for Zinn Corporation as a Project Director, assisting Target Inc. Mr. Ross has his Bachelor of Science from New Mexico State University.

Jennifer Balliet – Vice President, Chief Culture Officer

Mrs. Balliet has served as our Chief Culture Officer since September, 2016. Prior to that, she had served as our Vice President of Human Resources since April 2015. Mrs. Balliet joined NeoGenomics in 2008 and has steadily increased her responsibilities and was previously serving as Director of Human Resources. During her time with NeoGenomics, she managed the Human Resources process

as the Company grew from 100 employees to over 900 employees. As Vice President of Human Resources, Mrs. Balliet has responsibility for all areas of our Human Resources including recruiting, training, development, compensation, incentive plans and organizational development. Mrs. Balliet received her B.S. degree in Psychology and M.S. degree in Business Management from the University of Florida.

Edwin F. Weidig III – Controller, Clinical Division Chief Financial Officer and Principal Accounting Officer

Edwin F. Weidig III has served as our Controller and Clinical Division Chief Financial Officer since September, 2016, and as our Principal Accounting Officer since January 2012. Prior to assuming his position as Controller and Clinical Division Chief Financial Officer, he had served as our Director of Finance since January 2012. Mr. Weidig served as the Company's Corporate Controller from October 2007 until January 2012. Prior to that, from May 2005 to October 2007 he was a Division Controller for Meritage Homes Corporation (NYSE:MTH) in Fort Myers, Florida, and prior to that from January 1999 to May 2005 he worked in public accounting for a local firm in Fort Myers, Florida and for the PricewaterhouseCoopers office in Boston, Massachusetts. Mr. Weidig earned his Bachelor of Science degree in Business Administration from Merrimack College. Mr. Weidig holds an active CPA license with the state of Massachusetts.

NEOGENOMICS, INC

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.

Risks Relating to Our Business

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 increasing 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.

We may be unsuccessful in managing our growth which could prevent us from operating profitably.

Our growth, including through our acquisition of the Clarient business in December 2015, has placed, and is expected to continue to place, a significant strain on our managerial, operational and financial resources. To manage our expanded business and our potential growth, we must continue to implement and improve our operational, financial and billing systems and to expand, train and manage our employee base. We may not be able to effectively manage the expansion of our operations and our systems and our procedures or controls may not be adequate to support our operations. Our management may not be able to achieve the rapid execution necessary to fully exploit the market opportunity for our products and services. Any inability to manage growth could have a material adverse effect on our business, results of operations, potential profitability and financial condition.

We have a substantial amount of indebtedness. This level of indebtedness could adversely affect our flexibility in operating our business and our ability to react to changes in the economy or our industry.

In December 2016, we entered into a senior secured revolving credit facility, providing for up to $150 million of borrowings, comprised of a $75 million senior secured term loan facility and a $75 million revolving loan. At December 31, 2016, we had $97.9 million of indebtedness outstanding, and approximately $27.0 million of available borrowing capacity under our senior secured revolving credit facility. The revolving credit facility allows for additional borrowings as long as the debt to Adjusted EBITDA ratio remains below 3.75. The full amount of borrowings under the term loan facility and $22.9 million of borrowings under the revolving credit facility were used

to retire the then existing term loan and redeem $55 million in shares of our convertible and redeemable Series A Preferred Stock, or the Series A Preferred Stock, received by an affiliate of General Electric (GE Medical) in connection with our acquisition of Clarient, which we refer to as the Acquisition. Our substantial indebtedness could have significant consequences for our business and financial condition. For example:

- We could be required to dedicate a greater percentage of our cash flows to payments on our debt, thereby reducing the availability of cash flow to fund capital expenditures, pursue other acquisitions or investments in new technologies, make stock repurchases and fund other general corporate purposes.
- If we fail to meet our payment obligations or otherwise fail to comply with the covenants in our debt, including failure as a result of events beyond our control, it could result in an event of default on our debt. Upon an event of default, the lenders of that debt could elect to cause all amounts outstanding with respect to that debt to become immediately due and payable and we would be unable to access our revolving credit facility.

NEOGENOMICS, INC

ITEM 1A. RISK FACTORS (Continued)

- Our debt imposes operating and financial covenants and restrictions on us, and compliance with such covenants and restrictions may adversely affect our ability to adequately finance our operations or capital needs, pursue attractive business opportunities that may arise, redeem or repurchase capital stock, pay dividends, sell assets, and make capital expenditures.
- We may experience increased vulnerability to general adverse economic conditions, including increases in interest rates for those borrowings that bear interest at variable rates or if such indebtedness is refinanced at a time when interest are higher.
- We may experience limited flexibility in planning for, or reacting to, changes in or challenges relating to our businesses and industry, creating competitive disadvantages compared to other competitors with lower debt levels and borrowing costs.

We cannot assure you that cash flows, combined with additional borrowings under the revolving credit facility or any future credit facility, will be available in an amount sufficient to enable us to repay our indebtedness, or to fund other liquidity needs.

In addition, we may incur substantial additional indebtedness in the future, which could cause the related risks to intensify. We may need to refinance all or a portion of our indebtedness on or before their respective maturities. We cannot assure you that we will be able to refinance any of our indebtedness on commercially reasonable terms or at all. If we are unable to refinance our debt, we may default under the terms of our indebtedness, which could lead to an acceleration of the debt. We do not expect that we could repay all of our outstanding indebtedness if the repayment of such indebtedness was accelerated.

In addition, for so long as any shares of our Series A Preferred Stock remain outstanding, in the event that we issue any other shares of capital stock or any unsecured debt securities for cash, we are required to apply at least 50% of the net cash proceeds to redeem shares of Series A Preferred Stock at the then-effective liquidation preference, which is $7.50 per share as of the date of this report, less any applicable redemption discounts. As a result, our ability to repay our outstanding indebtedness will be constrained by the fact that we will only receive half of the net cash proceeds from certain capital raising activities for as long as any shares of our Series A Preferred Stock remains outstanding.

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

Acquisitions, involve the combination of two companies that formerly operated as independent companies. 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;

NEOGENOMICS, INC.

ITEM 1A. RISK FACTORS (Continued)

- 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 business and 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 experience discontinuation or recalls of existing testing products or failures to develop, or acquire, licenses for new or improved testing technologies which could materially and adversely affect our revenues.

From time to time, manufacturers discontinue or recall 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.

Our industry is subject to changing technology and new product introductions. 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.

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 Acquisition. 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 lab 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.

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 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. 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.

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. 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. Certain technological changes such as advances in point-of-care testing, could reduce the need for the laboratory tests we provide.

The market for our services is highly competitive, 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 highly competitive and we expect competition to continue to increase. We compete with other commercial clinical laboratories in addition to the in-house laboratories of many major hospitals and physician practices. Many of our existing competitors have significantly greater financial, human, technical and marketing resources than we do. Some physician groups and hospitals have made the decision to internalize testing rather than using an outsourced laboratory such as us and therefore control the referral of their own specimens. Our competitors may develop products and services that are superior to ours or that achieve greater market acceptance than our offerings. We may not be able to compete successfully against current and future sources of competition and in such cases, this may 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.

Our industry is characterized by intense competition. 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. 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.

Additional 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.

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.

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, or Fresno, West Sacramento, or Irvine, California laboratory locations that 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.

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.

We are dependent on key personnel and need to hire additional qualified personnel in order for our business to succeed.

Our performance is substantially dependent on the performance of our senior management and key technical personnel. In particular, our success depends substantially on the continued efforts of our senior management team, which currently is composed of a small number of individuals. The loss of the services of any of our executive officers, our 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.)

The failure to obtain necessary additional capital to finance growth and capital requirements, could adversely affect our business, financial condition and results of operations.

We may seek to exploit business opportunities that require more capital than we have currently available. We may not be able to raise such capital on favorable terms or at all, and may be restricted in amount and type of such capital by the agreements governing our existing indebtedness. If we are unable to obtain such additional capital, we may be required to reduce the scope of our anticipated expansion, which could adversely affect our business, financial condition and results of operations.

As of December 31, 2016, we had cash and cash equivalents of approximately $12.5 million and approximately $27.0 million of available borrowing capacity under our senior secured revolving credit facility. We may still need additional capital to fully implement our business, operating and development plans. Should the financing we require to sustain our working capital needs be unavailable or prohibitively expensive when we require it, there could be a material adverse effect on our long-term business, rate of growth, operating results, financial condition and prospects.

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

We frequently develop testing procedures to provide diagnostic results to clients that cannot currently be provided using test kits approved or cleared by the U.S. Food and Drug Administration, or the FDA. The FDA has been considering changes to the way that it regulates these LDTs. Currently all LDTs are conducted and offered in accordance with the Clinical Laboratory Improvements Amendments, or 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. FDA is taking the position that it can implement these new LDT regulatory requirements without promulgating formal regulations. 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 for us that some tests currently offered might become subject to FDA premarket approval or clearance. This FDA approval or clearance process would 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, but the Draft LDT Guidance has not been finalized to date. Through the ACLA, the industry has announced its opposition to the Draft LDT Guidance and submitted comments to the FDA in response to the draft guidance. In addition to the ACLA public comment, the FDA received 169 public comments in response to the Draft LDT Guidance, however it remains unknown whether the regulatory framework ultimately implemented by the FDA will differ substantially from the framework described in the Draft LDT Guidance. This 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 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.

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. In the event that, in the future, 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 and the FDA and/or congressional authorizing committees could take a long time to review such applications and/or document responses if every lab in the country files a large volume of applications and/or document responses for each of their LDTs.

NEOGENOMICS, INC.

ITEM 1A. RISK FACTORS (Continued)

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, or to achieve sustained profitability.

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 protected health information could result in violations of the Health Insurance Portability and Accountability Act of 1996, or HIPAA, the Health Information Technology for Economic and Clinical Health Act, or the HITECH Act, and analogous state laws, and risk the imposition of significant fines and penalties. Failure of our information technology systems could adversely affect our business, profitability and financial condition.

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,” which we refer to 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, effective December 31, 2017, each medical device manufacturer must pay sales tax in an amount equal to 2.3% of the price for which such manufacturer sells its medical devices that are listed with the FDA. Although the FDA issued Draft LDT Guidance that, if finalized, would regulate certain clinical laboratory tests that are developed and validated by a laboratory for its own use, or LDTs, as medical devices, none of our LDTs such as our prostate cancer test are currently listed with the FDA. We cannot assure you that the tax will not apply to services such as ours in the future.

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 cost control efforts. We cannot predict how the continued establishment and implementation of these new business models will impact on our business. There is the possibility that these organizations will seek to lower reimbursement for the services we provide and some may potentially restrict access to 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. In furtherance of health care reform and the reduction in health care expenditures, the ACA contains numerous provisions to be implemented through 2018. There can be no assurance at this time that the implementation of these provisions will not have a material adverse effect on our business.

The ACA provided for states to create health insurance “Marketplaces” where individuals can compare and enroll in Qualified Health Plans, or 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 attention 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, or 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 furtherance of health care reform and the reduction in health care expenditures, the ACA contains numerous provisions to be implemented through 2018. 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. Congress also could consider subsequent legislation to replace elements of the ACA that are repealed. Additionally, the ACA continues to be challenged in a variety of lawsuits. Because of the continued uncertainty about the implementation of the ACA, there can be no assurance at this time that the implementation (or repeal) of these provisions will not have a material adverse effect on our business.

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.

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, 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, or MPFS, or Clinical Laboratory Fee Schedule, or CLFS. The MPFS is updated on an annual basis. In the past, the MPFS was updated using a prescribed statutory formula; when application of the statutory formula resulted in lower payments, Congress has passed interim legislation to prevent the reductions. The Medicare Access and CHIP Reauthorization Act of 2015, or MACRA, repealed the previous statutory update formula and specified the update adjustment factors for calendar years 2015

and beyond. If the updated 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. On June 23, 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, or PAMA, which was signed to law on April 1, 2014. Under the final rule, laboratories, including physician office laboratories, are required to report private payer rate and volume data if they:

•have more than $12,500 in Medicare revenues from laboratory services on the CLFS and

•they receive more than 50 percent of their Medicare revenues from laboratory and physician services 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 U.S. Food and Drug Administration (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” lab may exclude certain types of laboratories that generally received more favorable pricing than other laboratories, and thus the make-up of laboratories reporting pricing data to CMS under the proposed 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, 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) will be released in November 2017 and will be effective on January 1, 2018. Also 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 and for the years 2020 through 2022, any reduction 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 states that it anticipates the effect of the proposed rule on the Medicare program to save $360 million in program payments for CLFS tests furnished in FY 2017, and to save $5.14 billion over 10 years. CMS has also proposed that a laboratory’s failure to comply with reporting obligations, or a laboratory that makes a misrepresentation or omission in reporting required information, would be a violation of 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,” or 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 including Arkansas, Arizona, California, Hawaii, Indiana, Idaho, Iowa, Kansas, Kentucky, Michigan, Missouri, Montana, Nebraska, Nevada, North Carolina, North Dakota, Ohio, Oregon, South Carolina, South Dakota, Utah, Virginia, Washington, West Virginia and Wyoming, Medicare administrative contractors CGS Administrators, Noridian Healthcare Solutions and Palmetto GBA, administer the Molecular Diagnostic Services Program, or MolDX, and establish 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.

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, operating results, financial condition and prospects.

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, increasing emphasis on managed care in the United States may continue to put pressure on the pricing of healthcare services. Uncertainty exists as to the coverage and reimbursement status of new applications or services. Third party 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. In addition, a substantial portion of the testing for which we bill our hospital and laboratory clients is ultimately paid by third party payers. 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, our operating results, cash flows or financial condition may decline.

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

Billing for laboratory services is extremely complicated. The customer refers the tests; the payer pays for the tests, and the two may not be the same. Depending on the billing arrangement and applicable laws, we must bill various payers, such as patients, insurance companies, Medicare, Medicaid, doctors and 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;
- 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 insurance carriers

We incur significant additional costs as a result of our participation in the Medicare and Medicaid programs, as billing and reimbursement for clinical laboratory 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 are federal and state laws prohibiting fraudulent billing and providing for the recovery 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 criminal and/or 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 $5,500 and $11,000 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. 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 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. 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.

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 direct billing of certain laboratory services by the laboratory performing the tests instead of allowing the laboratory to bill the ordering clinician for the test (direct billing rules).

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

NEOGENOMICS, INC.

ITEM 1A. RISK FACTORS (Continued)

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 the Clinical Laboratory Improvements Amendments 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 prior before the laboratory is authorized to perform testing. These state licensure laws often address 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 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, known as the federal “anti-kickback law” and the federal physician self-referral laws (also known as 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, 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 anti-kickback laws, 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, or the federal CMP Law, imposes civil monetary penalties and 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 a 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 for past or present practices.

Furthermore, HIPAA, the HITECH Act, and associated 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 Protected Health Information, or 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 they specifically apply to many healthcare providers, including physicians and clinical laboratories. Although we believe we are in material compliance with the Standards, Security and Privacy rules under HIPAA and the HITECH Act and 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 financial condition and subject us to liability. Additionally, the amendments to HIPAA in the HITECH Act provide that the state Attorneys General may bring an action against a covered entity, such as us, for a violation of HIPAA.

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 payments for certain health care services, which are referred to as designated health services or DHS, rendered as a result of referrals by physicians to DHS entities with which the physicians (or 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 for any DHS services performed as a result of such a referral, unless an arrangement is carefully structure 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. 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 $15,000 for each violation and $100,000 for each circumvention arrangement or scheme. Other implications of a Stark Law violation may include criminal penalties, 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 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 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, 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 Anti-Kickback Statute, or the 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 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 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; however, the ACA, among other things, amended the intent requirement of the AKS. A person or entity no longer needs to have actual knowledge of this statute or specific intent to violate it. In addition, the ACA provides that the government may assert that a claim including items or services resulting from a violation of the AKS constitutes a false or fraudulent claim for purposes of the false claims statutes. 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 $25,000, imprisonment of up to five years, civil penalties under the federal CMP Law of up to $50,000 for each violation, plus three times the remuneration involved, civil penalties under the federal False Claims Act of up to $11,000 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 the participation exclusion, 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 to 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 regulatory 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, which would decrease our revenues and adversely affect our results of operations and financial condition.

Tests which are reimbursed by Medicare and other Government payers (for example, State Medicaid programs) accounted for approximately 17%, 21% and 20% of our revenues for the years ended December 31, 2016, 2015 and 2014, respectively. We anticipate that the acquisition of Clarient will lower our Medicare mix slightly moving forward. 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. 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 PHI. The regulations establish a complex regulatory framework on a variety of subjects, 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. Recent revisions to HIPAA allow patients the option to obtain certain of their test reports directly from the laboratory, instead of learning the results from the ordering physician. We have implemented policies and procedures to comply with the HIPAA privacy and security laws and regulations. The privacy regulations establish a uniform federal standard but 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 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 HITECH Act and its implementing 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 under and following the requirements of HIPAA. Many states have similar breach notification laws. In the event of a breach, we could incur operational and financial costs related to remediation as well as preparation and delivery of the notices, which costs could be substantial. Additionally, HIPAA, the HITECH Act, and their 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, amendments to HIPAA provide that the state Attorneys General may 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 although there could be operational costs associated with HIPAA breaches above our insured limits.

NEOGENOMICS, INC.

ITEM 1A. RISK FACTORS (Continued)

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 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. 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.

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

HIPAA and the HITECH Act imposed additional requirements, restrictions and penalties on covered entities and their business associates to, among other things, deter breaches of security. As a result, the remedial actions required, the 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 similar disruptive problems caused by our clients or others, which could lead to interruption, delays or cessation in service to our clients. Further, such incidents, whether electronic or physical could also potentially jeopardize the security of confidential information, including PHI stored in our computer systems as it relates 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, 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 financial condition.

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. 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.

We must hire and retain qualified sales representatives to grow our sales, if not, our existing business and our results of operations and financial condition will likely suffer.

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.

NEOGENOMICS, INC.

ITEM 1A. RISK FACTORS (Continued)

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.

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, or 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 Relating to Our Common Stock

As a result of the Acquisition, GE Medical has significant influence over us and actions requiring general stockholder approval.

As a result of the Acquisition, GE Medical owns approximately 25% of our total voting power based on the number of shares of common stock outstanding as of March 8, 2017. This percentage may increase upon the conversion of shares of Series A Preferred Stock (including any additional shares of Series A Preferred Stock issued as payment-in-kind dividends into common stock) if such preferred stock is not first redeemed. In connection with the Acquisition, we increased the size of our board of directors from eight to ten with one of the vacancies created by such increase filled by a director selected for appointment to the Board of Directors by GE Medical. In addition, the Investor Board Rights, Lockup And Standstill Agreement with GE Medical contains certain rights in favor of GE Medical, including requiring GE Medical's approval before we can further increase the size of our Board of Directors and providing GE Medical with the right to participate in future rights offerings to our current stockholders as if the Series A Preferred Stock issued to GE Medical had been converted into shares of common stock. The terms of the Series A Preferred Stock issued to GE Medical provide that, without GE Medical's consent, we may not, among other things, repurchase outstanding shares of our common stock, or engage in certain other transactions.

NEOGENOMICS, INC.

ITEM 1A. RISK FACTORS (Continued)

As a result, GE Medical will have significant influence over matters requiring stockholder approval, including future amendments to our Amended and Restated Articles of Incorporation or other significant or extraordinary transactions. GE Medical's interests may differ from the interests of our other shareholders with respect to certain matters.

In addition, having GE Medical as a significant stockholder may have the effect of making it more difficult for a third party to acquire, or of discouraging a third party from seeking to acquire, a majority of our outstanding shares of common stock or control of the Board of Directors through a proxy solicitation.

Future sales of our common stock by GE Medical, or the perception that such sales may occur, could cause our stock price to decline.

The shares of common stock we issued or which we may issue upon conversion of Series A Preferred Stock to GE Medical as consideration in the Acquisition are restricted, but GE Medical may sell such shares under certain circumstances. Under the Investor Board Rights, Lockup and Standstill Agreement, GE Medical's ability to sell its shares of our common stock is limited for the specified lockup period, subject to volume limitations under Rule 144 under the Securities Act of 1933 and other exceptions. Furthermore, under the Registration Rights Agreement with GE Medical we are required to file, upon expiration of a lockup period, a registration statement for the resale of common stock by GE Medical, which registration statement when declared effective will allow GE Medical to sell a significant number of shares of our common stock in a short period of time. The sale of a substantial number of shares of our common stock by GE Medical or our other stockholders or the perception that such sales may occur could cause our stock price to decline, make it more difficult for us to raise funds through future offerings of our common stock or acquire other businesses using our common stock as consideration.

We currently do not expect to pay any cash dividends and the price of our stock may not appreciate.

We do not anticipate paying dividends on our common stock in the foreseeable future. Rather, we plan to retain earnings, if any, for the operation and expansion of our business. If we do not pay dividends, the price of our common stock must appreciate for you to recognize a gain on your investment upon sale. This appreciation may not occur.

We may become involved in securities class action litigation that could divert management's attention and harm our business.

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

If any securities analyst downgrades our common stock or our sector, the price of our common stock could be negatively affected.

Securities analysts may publish reports about us or our industry containing information about us that may affect the trading price of our common stock. If a securities or industry analyst downgrades the outlook for our common stock or one of our competitors' stocks or chooses to terminate coverage of our common stock, the trading price of our common stock may be negatively affected.

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. For example, the per share price of our common stock traded on the NASDAQ Capital Market ranged from $5.49 to $9.88 for the period from January 4, 2016 to December 31, 2016. The price of our common stock could fluctuate for 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;

NEOGENOMICS, INC.

ITEM 1A. RISK FACTORS (Continued)

- introduction of new products or services;
- 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.

NEOGENOMICS, INC.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None

ITEM 2. PROPERTIES

We operate a regional network of laboratories. Our corporate office and all our laboratory facilities are leased and we believe that they 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	89,473
Fort Myers, Florida	Corporate headquarters and laboratory	51,729
Irvine, California	Laboratory	26,105
Houston, Texas	Laboratory	24,330
West Sacramento, California	Laboratory	13,219
Tampa, Florida	Laboratory	5,875
Nashville, Tennessee	Laboratory	5,400
Fresno, California	Laboratory	2,541
Plantation, Florida	Courier office	240

ITEM 3. LEGAL PROCEEDINGS

From time to time the Company is engaged in legal proceedings in the ordinary course of business. We do not believe any current legal proceedings are material to our business. No material proceedings were terminated in the fourth quarter of 2016.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

NEOGENOMICS, INC.

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”. Set forth below is a table summarizing the high and low sales price per share for our common stock during the periods indicated.

	High Sales Price	Low Sales Price
2016		
4th Quarter 2016	$9.88	$6.90
3rd Quarter 2016	9.54	7.79
2nd Quarter 2016	9.17	6.56
1st Quarter 2016	8.00	5.49
2015		
4th Quarter 2015	$8.48	$5.53
3rd Quarter 2015	7.22	5.05
2nd Quarter 2015	5.90	4.14
1st Quarter 2015	5.04	3.33

The above table is based on information provided by NASDAQ Capital Market. These quotations reflect inter-dealer prices, without retail mark-up, markdown or commissions, and may not necessarily represent actual transactions. All historical data was obtained from the www.nasdaq.com web site.

Holders of Common Stock

As of March 9, 2017, there were 510 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. In addition, the Certificate of Designations governing the Series A Convertible Preferred Stock that we issued in December 2015 restricts us from declaring and paying certain dividends on our common stock without the prior written consent of Holders of a majority of the shares of Series A Convertible Preferred Stock. In addition, Holders of Series A Convertible Preferred Stock shall be entitled to a proportionate share of any distributions as though they were the holders of the number of shares of common stock into which their shares convert into.

NEOGENOMICS, INC.

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

Equity Compensation Plan Information

The following table summarizes the securities authorized for issuance under equity compensation plans as of December 31, 2016:

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans	
Equity compensation plans approved by security holders:				
Amended and Restated Equity Incentive Plan (“Equity Incentive Plan”)	4,936,111	$ 5.92	1,670,205	(c)
Employee Stock Purchase Plan (“ESPP”)	—	N/A	339,958	
Equity compensation plans not approved by security holders (a) (b)	650,000	$ 1.56	—	
Total	5,586,111	$ 5.41	1,670,205	

(a) Includes outstanding options to purchase 200,000 shares of common stock at an exercise price of $1.71 per share granted to Douglas M. VanOort on February 14, 2012. These options vest based on the passage of time. In the event of a change of control of the Company with a share price in excess of $4.00 per share, all unvested options will vest immediately. These options were exercised in February of 2017.

(b) Includes outstanding warrants to purchase 450,000 shares of common stock at an exercise price of $1.50 per share granted to Steven C. Jones on May 3, 2010. On September 14, 2016, these warrants were sold to an third party and remain subject to exercise. These warrants vested based on the passage of time and based on the achievement of certain milestones. All of these warrants are now vested. Unless sooner terminated pursuant to the terms of the warrant agreement, the warrants will terminate on May 3, 2017.

(c) The Company’s Equity Incentive Plan was amended and restated on April 16, 2013 and subsequently approved by a majority of shareholders. The plan allowed for the issuance of an aggregate number of shares of up to 7,000,000. The plan was further amended on May 4, 2015 and subsequently approved by shareholders to allow for an additional 2,500,000 shares bringing the maximum aggregate number of shares reserved and available for issuance to 9,500,000. The plan was most recently amended and restated on December 21, 2015 and subsequently approved by shareholders, increases the maximum aggregate number of shares of the Company’s common stock reserved and available for issuance under the Amended Plan to 12,500,000.

Currently, the Company’s Equity Incentive Plan, as amended and restated on December 21, 2015 and the Company’s ESPP as Amended and Restated, dated April 16, 2013 are the only equity compensation plans in effect.

Recent Sales of Unregistered Securities

On December 30, 2015 we issued 15,000,000 shares of common stock and 14,666,667 shares of Series A Convertible Preferred Stock to GE Medical in connection with the acquisition of Clarient, Inc., and we entered into a registration rights agreement in order to establish certain rights and restrictions related to the registration of the shares. See Notes D and H to our financial statements. There were no unregistered sales of equity in 2016.

NEOGENOMICS, INC.

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

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, 2011, through December 31, 2016 in comparison to the cumulative return on the S&P 500 Index and a customized peer group of 7 publicly traded companies during that same period. The peer group is made up of Cancer Genetics, Inc., Enzo Biochem, Inc., Genomic Health, Inc., Foundation Medicine, Laboratory Corporation of America Holdings, Myriad Genetics, 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 get 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, 2016. 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.

NEOGENOMICS, INC.

ITEM 6. SELECTED FINANCIAL DATA

The following is a summary of our historical consolidated financial data for the periods ended and at the dates indicated below. You are encouraged to read this information together with our audited consolidated financial statements and the related footnotes and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere in this Annual Report.

The historical consolidated financial data for the years ended December 31, 2016, 2015 and 2014 (Statement of Operations Data and Other Cash Data) has been derived from our audited consolidated financial statements, which are included elsewhere in this Annual Report. The historical consolidated financial data (Statement of Operations Data and Other Cash Data) for the years ended December 31, 2011 and 2010 has been derived from our audited consolidated financial statements, which are not included in this Annual Report. The historical consolidated financial data as of December 31, 2016 and 2015 (Balance Sheet Data) has been derived from our audited consolidated financial statements, which are included elsewhere in this Annual Report. The historical consolidated financial data as of December 31, 2014, 2013 and 2012 has been derived from our audited consolidated financial statements, which are not included in this Annual Report.

We believe that the comparability of our financial results between the periods presented in the table below is significantly impacted by factors which are more fully described in "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Consolidated Financial Statements and the notes thereto included elsewhere in this Annual Report.

	Years Ended December 31,				
	2016	2015 (1)	2014 (2)	2013	2012
	(In thousands, except per share data)				
Statement of Operations Data:					
Net revenue	$244,083	$99,802	$87,069	$66,467	$59,867
Cost of revenue	133,704	56,046	46,355	34,730	33,031
Gross margin	110,379	43,756	40,714	31,737	26,836
Operating expenses	107,805	49,391	38,496	28,563	25,625
Income (loss) from operations	2,574	(5,635)	2,218	3,174	1,211
Interest and other income (expense)	(9,998)	1,146	(929)	(989)	(1,146)
Income tax (benefit) expense	(1,701)	(1,954)	157	152	—
Net income (loss)	(5,723)	(2,535)	1,132	2,033	65
Deemed dividends on preferred stock	18,011	40	-	-	-
Amortization of preferred stock beneficial conversion feature	6,663	82	-	-	-
Net income (loss) due to common stockholders	$(30,397)	$(2,657)	$1,132	$2,033	$65
Net income (loss) per common share – Basic	$(0.39)	$(0.04)	$0.02	$0.04	$0.00
Net income (loss) per common share – Diluted	$(0.39)	$(0.04)	$0.02	$0.04	$0.00
Other Cash Data:					
Net cash – operating activities	$21,477	$6,393	$9,450	$2,227	$(492)
Net cash – investing activities	$(6,501)	$(75,155)	$(9,602)	$(2,011)	$(3,652)
Net cash – financing activities	$(25,871)	$58,493	$29,007	$2,750	$3,384

(1) Reflects the acquisition of Clarient in December 2015.
(2) Reflects the acquisition of Path Logic in July 2014.

NEOGENOMICS, INC.

ITEM 6. SELECTED FINANCIAL DATA (Continued)

	As of December 31,				
	2016	2015 (1)(3)	2014 (2)	2013	2012
	(In thousands)				
Balance Sheet Data:					
Current assets	$78,825	$82,360	$58,742	$27,491	$18,581
Property and equipment	34,036	34,577	15,082	9,694	8,607
Intangible assets	77,064	87,800	4,212	2,577	2,800
Goodwill	147,019	146,421	2,929	—	—
Other assets	174	129	141	154	83
Total assets	$337,118	$351,287	$81,106	$39,916	$30,071
Current liabilities	$38,113	$40,058	$14,623	$14,323	$17,758
Long-term liabilities	112,409	73,117	6,078	3,882	3,097
Total liabilities	150,522	113,175	20,701	18,205	20,855
Series A Redeemable Convertible Preferred stock	22,873	28,602	—	—	—
Stockholders' equity	163,723	209,510	60,405	21,711	9,216
Total liabilities preferred stock and stockholders' equity	$337,118	$351,287	$81,106	$39,916	$30,071
Working Capital	$40,712	$42,302	$44,119	$13,168	$823

(1) Reflects the acquisition of Clarient in December 2015.
(2) Reflects the acquisition of Path Logic in July 2014.
(3) Reflects the adoption of ASU 2015-17.

NEOGENOMICS, INC.

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.

Our Company

NeoGenomics, Inc. is a high-complexity CLIA-certified clinical laboratory that specializes in cancer genetics diagnostic testing. The Company's testing services include cytogenetics, fluorescence in-situ hybridization (FISH), flow cytometry, immunohistochemistry, anatomic pathology and molecular genetic testing. Headquartered in Fort Myers, FL, NeoGenomics has laboratories in Aliso Viejo, Irvine, Fresno and West Sacramento, CA; Tampa and Fort Myers, FL; Houston, TX and Nashville, TN. NeoGenomics services the needs of pathologists, oncologists, other clinicians and hospitals throughout the United States.

2016 Overview and Highlights

- We completed the migration of all Clarient clients to a common test menu, common laboratory information system and a common billing system.
- We redeemed 8,066,667 shares of the Series A Preferred Stock issued to GE Medical in connection with the Clarient acquisition.
- We increased revenue by approximately 145% in 2016 compared to 2015.
- We reduced cost per clinical test year-over-year by approximately 9.0%.
- We increased clinical test volume by over 155% in 2016 compared to 2015.

Company Outlook

We have developed a company-wide focus for 2017 which includes the following four critical success factors:

- We will build our high performance culture by empowering employees and investing in employee growth. We will communicate performance objectives, foster teamwork and provide skill based training and education for all

employees.

- We will "own" quality. We will achieve this by reinforcing and strengthening our principles of quality, recognizing quality performance and driving efficiency and effectiveness.
- We will accelerate profitable growth by cross selling and working to gain market share, growing our biopharma business and implementing marketing plans to develop our brand.
- We will advance our strategies in our business model, technology and products. We will accomplish this increasing collaboration with oncology groups, developing revenue generating informatics capabilities and developing plans for predisposition and companion diagnostic testing opportunities as well as executing liquid biopsy strategies for hematology, prostate and solid tumors.

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.

We will leverage the synergies obtained through the acquisition of Clarient to expand our market share, increase revenues and realize cost savings. We expect significant increases in both revenues and Adjusted EBITDA as a result of the acquisition. We expect improved profitability during 2017 as the benefits of the integration are fully recognized. We expect to realize at least $6-8 million in cost synergies in 2017 and we expect that additional synergies will be realized that extend well beyond 2017.

NEOGENOMICS, INC.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS, CONTINUED

Revenue growth continues to be an area of focus and we feel that we can gain market share and revenue growth by focusing on managed care and aggressively pursuing large purchasing group contracts. Our molecular testing menu remains a strong selling point as it enables us to offer clients a "one stop shop" where they can send all of their oncology testing rather than using multiple labs.

Innovation and changes in science and technology will lead to new therapeutic and diagnostic tests. Our Company will strive to lead in innovation with continued expansion of our test menu for oncology and expansion of liquid biopsy tests. We will continue to work with pharmaceutical clients on their clinical trials and will work to be on the leading edge of developments in the field of oncology.

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 drive down the cost of testing. The combination of our two California laboratories in Aliso Viejo and Irvine will enable us to further reduce our cost of testing in 2017. 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.

Regulatory Environment

The FDA has been considering changes which may include increased regulation of LDTs. These changes could impact the laboratory testing industry and our business, as further described the discussion of Government Regulations in Item 1. In October 2014, the FDA announced its proposed framework and timetable. However, at this point the FDA has not released a proposed rule, and it is anticipated that there would be a comment period related to such a significant change. The FDA has indicated that there will be a "phase in" period that in some instances will take as long as nine years. There may be legal challenges to the FDA, which also could impact the timing of any rule changes or regulations. On January 13, 2017 the FDA released a discussion paper in which the FDA said that they "hope that it advances public discussion on future LDT oversight". The paper does not represent formal FDA policy, nor is it enforceable. NeoGenomics is a member of the American Clinical Laboratory Association, or ACLA, who has been in active discussions with the FDA and Congress regarding FDA oversight of LDT's. At this point we cannot predict the outcome of this issue, or if there will be any changes to current rules and regulations.

Operating Segment

The Company views its operations and manages its business as one operating segment, which is our Laboratory Testing Segment. This segment delivers testing services to hospitals, pathologists, oncologists, other clinicians and researchers. At December 31, 2016, our revenue was generated in the United States, all of our services were provided within the United States and all of our assets were located in the United States.

Critical Accounting Policies

The preparation of financial statements in conformity with United States generally accepted accounting principles requires our management to make estimates and assumptions that affect the reported 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. For a complete description of our significant accounting policies, see Note B to our Consolidated Financial Statements included in this Annual Report.

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 and Allowance for Doubtful Accounts
- Intangible Assets

NEOGENOMICS, INC.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS, CONTINUED

- Stock Based Compensation
- Deferred taxes

Revenue Recognition

The Company recognizes revenues when (a) the price is fixed or determinable, (b) persuasive evidence of an arrangement exists, (c) the service is performed and (d) collectability of the resulting receivable is reasonably assured.

The Company's specialized diagnostic services are performed based on a written test requisition form or electronic equivalent 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 Medicare, commercial insurance companies, other directly billed healthcare institutions such as hospitals and clinics, and individuals. The Company reports revenues from contracted payers, including Medicare, certain insurance companies and certain healthcare institutions, based on the contractual rate, or in the case of Medicare, published fee schedules. The Company reports revenues from non-contracted payers, including certain insurance companies and individuals, based on the amount expected to be collected. The difference between the amount billed and the amount estimated to be collected from non-contracted payers is recorded as a contractual allowance to arrive at the reported net revenues. The expected revenues from non-contracted payers are based on the historical collection experience of each payer or payer group, as appropriate. The Company records revenues from patient pay tests net of a large discount and as a result recognizes minimal revenue on those tests. The Company regularly reviews its historical collection experience for non-contracted payers and adjusts its expected revenues for current and subsequent periods accordingly. The following table reflects our estimate of the breakdown of net revenue by type of payer for the fiscal years ended December 31, 2016, 2015, and 2014:

	2016	2015	2014
Medicare and other government	16 %	21 %	20 %
Commercial insurance	25 %	21 %	27 %
Client direct billing	56 %	55 %	50 %
Patient and year-end accrual	3 %	3 %	3 %
Total	100 %	100 %	100 %

Our proportion of client direct billing has increased over the years shown above, as more payers, including private commercial insurances and Medicare Advantage plans are practicing "consolidated payment" or "bundled payment" models where they pay the hospitals a lump sum, which is intended to include laboratory testing. This reflects an increase in the amount of risk sharing that CMS and other private payers are encouraging providers such as hospital systems to undertake. We anticipate a gradual increase in the percentage of client direct billing over the coming years.

Trade Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable are comprised of amounts due from sales of the Company's specialized diagnostic services and are recorded at the invoiced amount, net of discounts and contractual allowances. The allowance for doubtful accounts is estimated based on the aging of accounts receivable with each payer category and the historical data on bad debts in these aging categories. In addition, the allowance is adjusted periodically for other relevant factors, including regularly assessing the state of our billing operations in order to identify issues which may impact the collectability of receivables or allowance estimates. Revisions to the allowance are recorded as an adjustment to bad debt expense within general and administrative expenses. After appropriate collection efforts have been exhausted, specific receivables deemed to be uncollectible are charged against the allowance in the period they are deemed uncollectible. Recoveries of receivables previously written-off are recorded as credits to the allowance.

NEOGENOMICS, INC.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS, CONTINUED

The following tables present the dollars and percentage of the Company's gross accounts receivable from customers outstanding by aging category at December 31, 2016 and 2015:

NEOGENOMICS AGING OF RECEIVABLES BY PAYER GROUP

(In thousands)

December 31, 2016

Payer Group	0-30	%	31-60	%	61-90	%	91-120	%	>120	%	Total	%
Client	$12,775	19%	$6,520	9%	$3,531	5%	$2,869	4%	$5,229	8%	$30,924	45%
Commercial insurance	913	1%	1,947	3%	2,045	3%	1,824	3%	11,325	16%	18,054	26%
Medicaid	88	0%	203	0%	198	0%	180	0%	301	1%	970	1%
Medicare	840	1%	1,300	2%	779	1%	601	1%	3,167	5%	6,687	10%
Private pay	16	0%	7	0%	10	0%	10	0%	(4)	0%	39	0%
Unbilled revenue	10,066	15%	1,250	2%	654	1%	225	0%	342	0%	12,537	18%
Total	$24,698	36%	$11,227	16%	$7,217	10%	$5,709	8%	$20,360	30%	$69,211	100%

NEOGENOMICS AGING OF RECEIVABLES BY PAYER GROUP

(In thousands)

December 31, 2015

Payer Group	0-30	%	31-60	%	61-90	%	91-120	%	>120	%	Total	%
Client	$14,135	26%	$5,582	10%	$3,393	7%	$2,156	4%	$3,927	7%	$29,193	54%
Commercial insurance	2,260	4%	2,233	4%	1,641	3%	1,314	3%	4,005	7%	11,453	21%
Medicaid	98	0%	113	1%	72	0%	59	0%	64	0%	406	1%
Medicare	1,552	3%	1,193	2%	982	2%	772	1%	1,817	4%	6,316	12%
Private pay	17	0%	8	0%	14	0%	11	0%	3	0%	53	0%
Unbilled revenue	4,957	10%	718	1%	151	0%	82	0%	373	1%	6,281	12%
Total	$23,019	43%	$9,847	18%	$6,253	12%	$4,394	8%	$10,189	19%	$53,702	100%

The following table represents our allowance balances at each balance sheet date presented and that allowance as a percentage of gross accounts receivable ($ in thousands):

	December 31,		
	2016	2015	$ Change
Allowance for doubtful accounts	$13,699	$4,759	$8,940
As a % of total accounts receivable	19.8 %	8.9 %	

For the year ended December 31, 2016 our allowance for doubtful accounts increased approximately 188% as compared to the year ended December 31, 2015. As a percentage of total accounts receivable, our allowance increased to 20% of total accounts receivable. This increase is attributable primarily to the receivables of Clarient being included at December 31, 2015 at fair value as of the acquisition date with no associated allowance recorded. Allowances for doubtful accounts as a percentage of total accounts receivable was 17% and 20% as of December 31, 2014 and 2013, respectively, prior to the Clarient acquisition, so we feel the increase in 2016 is a return to normal historical levels. In addition to the aforementioned, the billing team acquired from Clarient was not as strong as our existing billing team, as they lacked qualified leadership and processes, and relied heavily on third party collectors to manage their receivables. This factor required us to restructure the Clarient billing department, by hiring qualified leadership, hiring many new team members, improving processes and training the new Clarient billing team on our billing system. During the fourth quarter of 2016, the integration of Clarient onto NeoGenomics billing system resulted in a temporary backlog of unbilled tests, which resulted in increased DSO’s and delayed cash collections.

NEOGENOMICS, INC.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS, CONTINUED

Intangible Assets

We review our long-lived assets for recoverability if events or changes in circumstances indicate the assets may be impaired. Impairment exists when the carrying amount of the asset exceeds fair value.

Clarient

As a result of the acquisition of Clarient in December 2015, see Note D to our Consolidated Financial Statements included in this Annual Report, we recorded an estimated $84.0 million in intangible assets comprised of $81.0 million in customer relationships amortized over a fifteen-year period and $3.0 million in trade name which we are amortizing over a two year period. The amortization expense for the Clarient intangible assets are included in general and administrative expense in the consolidated statements of operations.

Path Logic

We acquired Path Logic in July 2014, and recorded $1.93 million in customer relationships as an intangible asset. We were amortizing these customer relationships over a thirteen-year period. The amortization expense was included in general and administrative expense in the consolidated statements of operations.

In the fourth quarter of 2016, due to declining volumes and revenues from customer losses, we engaged a valuation expert to perform an impairment assessment of the Path Logic customer relationships intangible asset. Based on the results of this assessment, we determined that the fair value of the Path Logic customer list was less than the carrying amount and the assets were fully impaired. An impairment loss was reported for the unamortized balance of the asset in the amount of approximately $1.6 million.

License Agreement

On January 6, 2012 we acquired approximately $3.0 million of intangible assets related to our Master License Agreement, or the License Agreement with HDC pursuant to which we were granted an exclusive worldwide license to utilize 84 issued and pending patents to develop and commercialize ("LDTs") and other products relating to hematopoietic and solid tumor cancers. The licensed intellectual property and know-how relates to support vector machine ("SVM"), recursive feature elimination ("SVM-RFE"), fractal genomic modeling ("FGM") and other pattern recognition technology as well as certain patents relating to digital image analysis, biomarker discovery, and gene and protein-based diagnostic, prognostic, and predictive testing.

We recorded amortization expense for the intangible assets from HDC in the amount of $223,000, $228,000 and $223,000 during the years ended December 31, 2016, 2015 and 2014, respectively. The amortization expense for the Health Discovery licenses has been included as a research and development expense.

In the fourth quarter of 2016, the Company considered several factors in making a determination that the HDC assets were fully impaired. Key factors considered were the lack of revenues to date, and the disputed license termination notification received from HDC. As a result of this disputed license termination notice, the likelihood of future

revenues as result of direct use of the HDC assets is significantly reduced. Based on this analysis, the Company determined that the assets were fully impaired, and an impairment loss was recorded for the unamortized balance of these assets in the amount of $1.9 million.

Stock Based Compensation

The Company recognizes 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. The fair value of awards to non-employees are then market-to-market each reporting period until vesting criteria are met.

For stock options, the Company uses a trinomial lattice option-pricing model to estimate the fair value of stock option awards, and recognizes compensation cost on a straight-line basis over the awards' requisite service periods for employees and variably for non-employees due to the market-to-market adjustments at the end of each reporting period. The Company's periodic expense is adjusted for actual forfeitures.

NEOGENOMICS, INC.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS, CONTINUED

See Note B – Summary of Significant Accounting Policies, Stock-Based Compensation and Note K – Stock Options, Stock Purchase Plan and Warrants in the Consolidated Financial Statements included in this Annual Report 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. 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. We allocate our deferred tax asset and liabilities based on the classification of the item creating the deferred or when we believe the deferred will be realized if there is no corresponding item.

Management assesses the available positive and negative evidence to estimate if sufficient future taxable income will be generated to use the existing deferred tax assets. We previously established a valuation allowance to fully reserve our net deferred income tax assets as such assets did not meet the more likely than not recognition standard established by ASC Topic 740. As of December 31, 2015, due to an increase of deferred tax liabilities resulting from the acquisition of Clarient, management determined that sufficient positive evidence exists to conclude that it is more likely than not that additional deferred taxes are realizable and therefore reduced the valuation allowance to zero.

Results of Operations for the year ended December 31, 2016 as compared with the year ended December 31, 2015

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

	For the years ended December 31,	
	2016	2015
NET REVENUE	100.0%	100.0%
Cost of revenue	54.8 %	56.2 %
GROSS PROFIT	45.2 %	43.8 %
OPERATING EXPENSES:		
General and administrative	31.0 %	33.7 %
Research and development	1.9 %	4.2 %
Sales and marketing	9.8 %	11.6 %
Impairment charges	1.4 %	—
Total operating expenses	44.1 %	49.5 %
INCOME (LOSS) FROM OPERATIONS	1.1 %	(5.6)%
Interest expense, net	4.1 %	0.9 %
Other (income)	—	(2.0)%

Net (loss) before income taxes	(3.0	)%	(4.5	)%
Income taxes (benefit)	(0.7	)%	(2.0	)%
NET (LOSS)	(2.3	)%	(2.5	)%

NEOGENOMICS, INC.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS, CONTINUED

Revenue and Cost of Revenue

Our clinical revenue, cost of revenue and requisition metrics for are as follows ($ in thousands, except per test amounts):

	December 31,			
	2016	2015	% Change	
Requisitions received (cases)	361,220	139,195	159.5	%
Number of tests performed	563,132	221,191	154.6	%
Average number of tests/requisition	1.56	1.59	(1.9	%)
Total clinical genetic testing revenue	$214,708	$90,506	137.2	%
Average revenue/requisition	$594	$650	(8.6	%)
Average revenue/test	$381	$409	(6.8	%)
Cost of revenue	$113,373	$48,783	132.4	%
Average cost/requisition	$314	$350	(10.3	%)
Average cost/test	$201	$221	(9.0	%)

Clinical revenue and requisitions exclude results of Pharma Services and PathLogic.

Revenue

Our clinical genetic revenue grew by $124.2 million or 137.2% year-over-year. This growth is primarily the result of a broad based increase in the number of new clients due to the Clarient acquisition, this is also evidenced by the 159.5% increase in case volume. The acquisition has enabled us to expand into geographical areas we previously did not have a presence which has added to our client base and revenues. In addition, the increase in revenues are a result of our efforts to innovate by developing one of the most comprehensive molecular testing menus in the industry. Our testing menu has allowed us to up-sell tests to Clarient customers that they previously had to order from other laboratories, which is also driving our revenues and growth.

In addition, the increase in revenues are a result of our efforts to innovate by developing one of the most comprehensive molecular testing menus in the industry. For example, our comprehensive testing menu has allowed us to offer tests to Clarient customers that they previously had to order from other laboratories. New tests and innovation, such as PD-L1 testing, also contributed to our growth.

In the fourth quarter of 2016, we saw a significant increase in the demand for the PD-L1 and believe we are currently a market leader in this important immuno-oncology test offering.

Average revenue per requisition as well as average revenue per test decreased in 2016 as compared to 2015. These decreases were largely due to product mix changes, specifically the increase in PD-L1 testing which has a lower unit price. These decreases were offset by our higher volumes as well as our reduction in cost per test.

During 2016, we completed the integration of all Clarient clients to the NeoGenomics test menu. This was a significant task and a distraction for our sales team which including training the Clarient clients on the new ordering system as well as educating them on the new test menu. As all integration-related activities are completed, our sales team will be more focused on growth and we plan to accelerate growth in the second half of 2017.

Our Pharma Services business reported revenue in 2016 of $22.1 million, up from $1.2 million in 2015. This was due to the inclusion of Clarient's results as they had a much larger Pharmaceutical Services business than legacy NeoGenomics before the acquisition. We are investing in this business and believe it will be a significant growth driver for us in future periods as the market for oncology clinical trials continues to expand.

Cost of Revenue

NEOGENOMICS, INC.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS, CONTINUED

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

Cost of revenue year-over-year increased by approximately 132%, primarily due to our increase in testing volume from the Clarient acquisition. As a percentage of revenue, costs declined slightly. We have begun to realize the benefits of our increased volumes and were able to reduce cost per test year-over-year by 9.0%. We will continue to realize the benefit of scale as we route higher volumes through our existing laboratories, especially as we combine two of our California laboratories in early 2017.

Average cost per requisition also decreased in 2016 as compared to 2015, which is attributable to changes in product mix as well as operating efficiencies. Our best practice teams have been working closely with our information technology team to re-design the laboratory information system. We expect this to increase efficiency in the labs and improve our processes. We continue to focus on improving our laboratory operations in order to drive further improvements in our cost per test. We believe that we have only begun to achieve the potential synergies from the Clarient acquisition and expect to further reduce cost per test in 2017.

Sales and Marketing Expenses

Sales and marketing expenses are primarily attributable to employee related costs including sales management, sales representatives, sales and marketing consultants, marketing, and customer service personnel. Costs also include various marketing related costs such as attending trade shows, advertising and maintaining our web site.

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

	For the years ended December 31.			
	2016	2015	$ Change	% Change
Sales and marketing	$23,910	$11,562	$12,348	106.8 %
As a % of revenue	9.8 %	11.6 %		

Sales and marketing expenses increased for the year ended December 31, 2016 as compared to the year ended December 31, 2015. The increase in sales and marketing expenses was the direct result of our significantly larger sales force due to the acquisition of Clarient. In addition, we had higher expenditures for advertising and marketing which were partly due to the larger company and also due to our re-branding efforts. The decrease in our sales and

marketing expenditures as a percentage of revenues can be attributed to the synergies obtained as a result of the acquisition. We expect to continue to increase our sales and marketing expenditures as we strive to grow the business and create brand awareness, but expect our costs to remain stable as a percentage of our overall sales.

General and Administrative Expenses

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

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

	For the years ended December 31.			
	2016	2015	$ Change	% Change
General and administrative	$75,782	$33,631	$42,151	125.3 %
As a % of revenue	31.0 %	33.7 %		

General and administrative expenses increased for the year ended December 31, 2016 as compared to the year ended December 31, 2015, while as a percentage of revenue there was a slight decrease. These increases in general and administrative expenses were primarily due to the integration of Clarient and the additional resources necessary to manage the growth of the Company and the increased volume of testing. The majority of this increase was in the line items of payroll and payroll related expenditures and bad

NEOGENOMICS, INC.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS, CONTINUED

debt expense. In addition, $2.1 million of the increase is attributable to non-cash stock based compensation expense as a result of new options issued in 2016 and the increase in NeoGenomics stock price during 2016 which impacts stock options issued to non-employees, as awards to non-employees that are not vested require marked-to-market adjustments each reporting period.

A significant portion of our stock based compensation is for non-employee options which are subject to variable accounting, and our expenses will fluctuate based on the performance of our common stock. A rise in the price of our stock will increase our stock compensation expense, and a decline in our stock price will reduce this expense.

Bad debt expense increased approximately $9.5 million to $11.9 million for the year ended December 31, 2016 as compared to the year ended December 31, 2015. As a percentage of revenue, bad debt expense was 4.9% for the period ended December 31, 2016 compared to 2.3% for the period ended December 31, 2015. This increase in bad debt expense is attributable to the inclusion of Clarient's results, which had a historically higher bad debt rate than legacy NeoGenomics.

We expect our general and administrative expenses to increase as we add personnel and equity related compensation expenses, increase our billing and collections activities; incur additional expenses associated with the expansion of our facilities and backup systems; incur additional bad debt expense as sales increase and as we continue to expand our physical infrastructure to support our anticipated growth. However, we anticipate that as a percentage of overall sales we will see a decrease in the percentage of general and administrative expense over the coming years as revenue grows.

Research and Development Expenses

Research and development, or R&D expenses relate to cost of developing new proprietary and non-proprietary genetic tests as well as costs related to our licensing agreement with Health Discovery Corporation. Expenses include amortization of the licensed technology, payroll and payroll related costs, maintenance and depreciation of laboratory equipment, laboratory reagents, probes and supplies.

Stock based compensation, recorded in research and development relates to unvested equity awards granted to a non-employee physician. Because portions of the vesting requirements have not been met, the amount of expense is re-measured at the end of each accounting period.

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

	For the years ended December 31.				
	2016	2015	$ Change	% Change	
Research and development	$4,649	$4,198	$ 451	10.7	%

As a % of revenue	1.9	%	4.2	%

Excluding stock based compensation of $789,000 and $1.2 million, research and development expense was approximately $3.9 million and $3.0 million for the years ended December 31, 2016 and 2015, respectively. The year over year variances in stock based compensation expense are directly related to the fluctuations in our stock price. The remaining increase of approximately 30% was due to increases in labor, contract labor and equipment related to the development of new tests.

We expect our research and development expenses to fluctuate in future quarters because of increases or decreases in our stock price and the corresponding stock based compensation expense. Increases in our stock price result in additional expense and decreases in our stock price can result in recovery of previously recorded expense. We anticipate research and development expenditures will increase as a percentage of sales as we continue to invest in innovation and bringing new tests to market.

Interest Expense, net and Other Income

Interest expense, net primarily consists of the interest we incur on capital lease and debt obligations offset by the interest income we earn on cash deposits. Interest expense, net increased from $854 thousand for the year ended December 31, 2015 to approximately $10.0 million for the year ended December 31, 2016. The increase is almost entirely due to interest payments on the Term Loan Facility and revolving credit facility entered into in association with the Clarient acquisition. As this financing was closed in December of 2015, there were minimal interest costs for this facility for the year ended December 31, 2015.

NEOGENOMICS, INC.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS, CONTINUED

In March of 2016, we paid off the revolving credit facility and in December of 2016, we paid off the Term Loan Facility. We incurred debt termination costs of approximately $1.1 million and also recognized approximately $2.8 million associated with the write off of debt issuance costs; these expenses are included in interest expense on the consolidated statement of operations. A new borrowing facility, at a lower interest rate was put into place on December 22, 2016, the proceeds of which were used to pay off the debt issued for the Clarient acquisition, and to redeem $55.0 million worth of our Series A Convertible Preferred Stock.

Other income of $2.0 million was recorded in 2015 related to a one-time payment received upon the amendment of a laboratory services contract and elimination of the exclusivity requirement. We had no other income reported for the year ended December 31, 2016.

Net (Loss)

The following table provides the net loss for each period along with the computation of basic and diluted net income per share for the year ended December 31, 2016 and 2015 (in thousands, except per share amounts):

	Years Ended December 31,	
	2016	2015
NET (LOSS) ATTRIBUTABLE TO COMMON STOCKHOLDERS	$(30,397)	$(2,657)
Basic weighted average common shares outstanding	77,542	60,526
Effect of potentially dilutive securities	—	—
Diluted weighted average shares outstanding	77,542	60,526
Basic net (loss) per common share	$(0.39)	$(0.04)
Diluted net (loss) per share	$(0.39)	$(0.04)

Non-GAAP Measures

Use of non-GAAP Financial Measures

Our financial results are provided in accordance with accounting principles generally accepted in the United States of America (GAAP) and using certain non-GAAP financial measures. Management believes that presentation of operating results using non-GAAP financial measures provides useful supplemental information to investors and facilitates the analysis of the Company's operating results and comparison of operating results across reporting periods and between entities. Management also uses non-GAAP financial measures for financial and operational decision

making, planning and forecasting purposes and to manage our business. Management believes that Adjusted EBITDA is a key metric for our business because it is used by our lenders in the calculation of our debt covenants. Management also believes that these non-GAAP financial measures enable investors to evaluate our 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 our 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 therefore present the full measure of our recorded costs against its net revenue. In addition, our 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 EBITDA

We define Non-GAAP “EBITDA” as net income from continuing operations before: (i) interest expense, (ii) tax expense and (iii) depreciation and amortization expense.

Non – GAAP Adjusted EBITDA

NEOGENOMICS, INC.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS, CONTINUED

We define Non-GAAP "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 and warrant amortization expense, and if applicable in a reporting period (v) transaction expenses related to acquisitions and potential acquisitions, (vi) non-cash impairments of intangible assets (vii) debt financing costs and (viii)other significant non-recurring or non-operating (income) or expenses.

Basis for Non-GAAP Adjustments

Our basis for excluding certain expenses from GAAP financial measures, are outlined below:

- Interest expense – The capital structure of companies significantly affects the amount of interest expense incurred. This expense can vary significantly between periods and between companies. In order to compare performance between periods and companies that have different capital structures and thus different levels of interest obligations, NeoGenomics excludes this expense.
- Income tax expense (benefit) – The tax positions of companies can vary because of their differing abilities to take advantage of tax benefits and because of the tax policies of the jurisdictions in which they operate. As a result, effective tax rates and the provision for income taxes can vary considerably among companies. In order to compare performance between companies, NeoGenomics excludes this expense (benefit).
- Depreciation expense – Companies utilize assets with different useful lives and use different methods of both acquiring and depreciating these assets. These differences can result in considerable variability in the costs of productive assets and the depreciation and amortization expense among companies. In order to compare performance between companies, NeoGenomics excludes this expense.
- Amortization expense – The intangible assets that give rise to this amortization expense relate to acquisitions, and the amounts allocated to such intangible assets and the terms of amortization vary by acquisition and type of asset. NeoGenomics excludes these items to provide a consistent basis for comparing operating results across reporting periods, pre and post-acquisition.
- Stock-based compensation expenses – Although stock-based compensation is an important aspect of the compensation paid to NeoGenomics employees and consultants, the related expense is substantially driven by changes in the Company's stock price in any given quarter, which can fluctuate significantly from quarter to quarter and result in large positive or negative impacts to total operating expenses. The variable accounting treatment causing expense to be driven by changes in quarterly stock price is required because many of the Company's full-time physicians reside in California and are classified as consultants rather than employees due to state regulations. GAAP provides that variable stock based compensation treatment be applied for consultants but not for employees. Without adjusting for these non-cash expenses, the Company believes it would be difficult to compare financial results from operations across reporting periods on a consistent basis.
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Transaction expenses relating to acquisitions - We incurred significant expenses in connection with our recent acquisition of Clarient. The inclusion of these costs consisting primarily of transaction costs as well as outside consultants and related services result in considerable variability between periods. In order to compare across periods on a consistent basis we believe it is useful to exclude these expenses.

- Debt financing costs – The amount and frequency of debt financing costs are significantly impacted by the timing and size of debt financing transactions. The amount and frequency of such charges are not consistent and therefore without adjusting for these costs, the Company believes it would not allow for consistent comparison between reporting periods.

- Non-cash impairments - We exclude these impairments in our calculation of Adjusted EBITDA, as they entail no outlay of cash and reduce the comparability of financial results between periods.

We believe that EBITDA and Adjusted EBITDA provide more consistent measures of operating performance between entities and across reporting periods by excluding cash and non-cash items of expense that can vary significantly between companies. In addition, Adjusted EBITDA is a metric that is used by our lenders in the calculation of our debt covenants. Adjusted EBITDA also assists investors in performing analyses that are consistent with financial models developed by independent research analysts.

NEOGENOMICS, INC.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS, CONTINUED

EBITDA and Adjusted EBITDA (as defined by us) are not measurements under GAAP and may differ from non-GAAP measures used by other companies. We believe there are limitations inherent in non-GAAP financial measures such as EBITDA and Adjusted EBITDA because they exclude a variety of charges and credits that are required to be included in a GAAP presentation, and do not therefore present the full measure of NeoGenomics recorded costs against its net revenue. Accordingly, we encourage investors to consider both non-GAAP results together with GAAP results in analyzing our financial performance.

The following is a reconciliation of GAAP net loss to Non-GAAP EBITDA and Adjusted EBITDA for the years ending December 31, 2016 and 2015 ($ in thousands):

	For the years ended December 31,	
	2016	2015
NET (LOSS) (per GAAP)	$(5,723)	$(2,535)
Adjustments to net income:		
Interest expense, net	9,998	854
Amortization of intangibles	7,272	412
Income taxes (benefit)	(1,701)	(1,954)
Depreciation of property and equipment	15,937	6,730
EBITDA (non-GAAP)	25,783	3,507
Further Adjustments to EBITDA:		
Acquisition related transaction expense	-	4,686
Impairment charges	3,464	-
Gain on contract amendment	-	(2,000)
Non-cash stock-based compensation	5,438	3,479
ADJUSTED EBITDA (non-GAAP)	$34,685	$9,672
Adjusted EBITDA as % of Revenue	14.2 %	9.7 %

Results of Operations for the year ended December 31, 2015 as compared with the year ended December 31, 2014

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

	For the years ended

	December 31.	
	2015	2014
NET REVENUE	100.0%	100.0%
Cost of revenue	56.2 %	53.2 %
GROSS PROFIT	43.8 %	46.8 %
OPERATING EXPENSES:		
General and administrative	33.7 %	27.3 %
Research and development	4.2 %	3.1 %
Sales and marketing	11.6 %	13.8 %
Total operating expenses	49.5 %	44.2 %
INCOME (LOSS) FROM OPERATIONS	(5.6)%	2.6 %
Interest expense, net	0.9 %	1.0 %
Other (income) expense	(2.0)%	0.1 %
Net income (loss) before income taxes	(4.5)%	1.5 %
Income taxes (benefit) expense	(2.0)%	0.2 %
NET INCOME (LOSS)	(2.5)%	1.3 %

NEOGENOMICS, INC.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS, CONTINUED

Revenue

Our consolidated revenue and requisition metrics are as follows:

	2015	2014 (1)	% Change	
Requisitions received (cases)	204,282	152,076	34.3	%
Total testing revenue (in thousands)	$99,802	87,069	14.6	%
Average revenue/requisition	$489	$573	(14.7	%)

(1) The Path Logic metrics included in 2014 are for the period from our acquisition on July 8, 2014 through December 31, 2014.

Our consolidated 15% year-over-year revenue growth is primarily the result of a broad based increase in the number of new clients as evidenced by the 34% increase in case volume as well as increases in revenues from existing customers as a result of our larger test menu. A portion of this increase is due to the fact that the 2014 consolidated figures do not include a full year of activity for Path Logic (as Path Logic was acquired on July 8, 2014). The year-over-year revenue growth in our Base Business (including NeoGenomics Laboratories and Clarient) was 12% for the period and the related increase in case volume for our Base Business was 25%. Clarient was purchased from GE Medical on December 30, 2015. The two days of revenue from Clarient in 2015 accounted for $665,000, which added 0.8% to our consolidated annual revenue growth.

We believe that the increase in revenues are the direct result of our efforts to innovate by developing one of the most comprehensive molecular testing menus in the industry. Our molecular testing menu has also allowed us to up-sell many existing clients which is also helping to drive our growth. Customers increasingly see us as a one-stop-shop able to handle all of their cancer testing needs. In addition, we expanded our sales team during 2015 and saw the benefit from that expansion.

Consolidated average revenue per requisition decreased approximately 15% year-over-year. This decrease in revenue per test is due to a significant reduction in reimbursement for "FISH" testing as a result of changes in the FISH reimbursement structure that were introduced in 2015. CMS has reset the rates for FISH testing in 2016 and has put into place increases for the technical component of FISH testing.

Cost of Revenue and Gross Profit

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.

The consolidated cost of revenue and gross profit metrics for NeoGenomics Inc. is as follows ($ in thousands, except per test amounts):

	For the years ended December 31,			
	2015	2014 (1)	$ Change	% Change
Cost of revenue	$56,046	$46,355	$ 9,691	20.9 %
Cost of revenue as a % of revenue	56.2 %	53.2 %		