UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 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, 2017 or

o **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 001-36156

VERACYTE, INC.
(Exact Name of Registrant as Specified in its Charter)

Delaware	**20-5455398**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification Number)

6000 Shoreline Court, Suite 300
South San Francisco, California 94080
(Address of Principal Executive Offices, Including Zip Code)

(650) 243-6300
(Registrant's Telephone Number, Including Area Code)

Securities Registered Pursuant to Section 12(b) of the Act:

Title of Each Class	**Name of Each Exchange on Which Registered**
Common Stock, par value $0.001 per share	The Nasdaq Stock Market LLC

Securities Registered Pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o 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 o 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 o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K 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, a smaller reporting company, or emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company,"and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	o		Accelerated filer	☒
Non-accelerated filer	o	(Do not check if a smaller reporting company)	Smaller reporting company	o
			Emerging growth company	☒

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

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

As of June 30, 2017, the aggregate market value of common stock held by non-affiliates of the registrant was approximately $225.6 million, based on the closing price of the common stock as reported on the Nasdaq Global Market for that date.

The number of shares of the registrant's Common Stock outstanding as of February 23, 2018 was 34,290,774.

DOCUMENTS INCORPORATED BY REFERENCE

Item 10 (as to directors and Section 16(a) Beneficial Ownership Reporting Compliance), 11, 12, 13 and 14 of Part III incorporate by reference information from the registrant's proxy statement to be filed with the Securities and Exchange Commission in connection with the solicitation of proxies for the registrant's 2017 Annual Meeting of Stockholders to be held on June 6, 2018.

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PART I

ITEM 1. BUSINESS

This report contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. When used in this report, the words "expects," "anticipates," "intends," "estimates," "plans," "believes," "continuing," "ongoing," and similar expressions are intended to identify forward-looking statements. These are statements that relate to future events and include, but are not limited to, the factors that may impact our financial results; our expectations regarding revenue; our expectations with respect to our future research and development, general and administrative and selling and marketing expenses and our anticipated uses of our funds; our beliefs with respect to the optimization of our processes for the analysis of RNA samples; our belief in the importance of maintaining libraries of clinical evidence; our expectations regarding capital expenditures; our anticipated cash needs and our estimates regarding our capital requirements; our need for additional financing; potential future sources of cash; our business strategy and our ability to execute our strategy; our ability to achieve and maintain reimbursement from third-party payers at acceptable levels and our expectations regarding the timing of reimbursement; the estimated size of the global markets for our tests; the estimated number of patients who receive uncertain diagnoses who are candidates for our test; the attributes and potential benefits of our tests and any future tests we may develop to patients, physicians and payers; the factors we believe drive demand for and reimbursement of our tests; our ability to sustain or increase demand for our tests; our intent to expand into other clinical areas; our ability to develop new tests, and the timeframes for development or commercialization; our ability to get our data and clinical studies accepted in peer-reviewed publications; our dependence on and the terms of our agreement with TCP, and on other strategic relationships, and the success of those relationships; our beliefs regarding our laboratory capacity; the applicability of clinical results to actual outcomes; our expectations regarding our international expansion; the occurrence, timing, outcome or success of clinical trials or studies; the ability of our tests to impact treatment decisions; our beliefs regarding our competitive position; our compliance with federal, state and international regulations; the potential impact of regulation of our tests by the Food and Drug Administration, or FDA, or other regulatory bodies; the impact of new or changing policies, regulation or legislation, or of judicial decisions, on our business; the impact of seasonal fluctuations and economic conditions on our business; our belief that we have taken reasonable steps to protect our intellectual property; our belief that our intellectual property will develop and maintain our competitive position; the impact of accounting pronouncements and our critical accounting policies, judgments, estimates, models and assumptions on our financial results; and anticipated trends and challenges in our business and the markets in which we operate. We caution you that the foregoing list does not contain all of the forward-looking statements made in this report.

Forward-looking statements are based on our current plans and expectations and involve risks and uncertainties which could cause actual results to differ materially. These risks and uncertainties include, but are not limited to, those risks discussed in Part I, Item 1A of this report. These forward-looking statements speak only as of the date hereof. We expressly disclaim any obligation or undertaking to update any forward-looking statements contained herein to reflect any change in our expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

When used in this report, all references to "Veracyte," the "company," "we," "our" and "us" refer to Veracyte, Inc.

Veracyte, Afirma, Percepta, Envisia, Know by Design, the Veracyte logo and the Afirma logo are our trademarks. We also refer to trademarks of other corporations or organizations in this report that are the property of their respective owners.

This annual report contains statistical data and estimates that we obtained from industry publications and reports. These publications typically indicate that they have obtained their information from sources they believe to be reliable, but do not guarantee the accuracy and completeness of their information. Some data contained in this annual report is also based on our internal estimates. Although we have not independently verified the third-party data, we are responsible for its inclusion in the annual report and believe it to be reasonable.

General

We are a leading genomic diagnostics company that provides trustworthy and actionable answers that fundamentally improve patient care when current diagnostic test results are uncertain. Our products uniquely combine genomic technology, clinical science and machine learning to provide answers that give physicians and patients a clear path forward without risky, costly surgery that is often unnecessary.

Our vision is to lead a transformation of diagnostics with a new genomic standard of truth, providing answers that illuminate the pathway to health. Our goal is to drive stockholder value by improving patient outcomes and reducing the cost of healthcare.

The role of genomic information in medical practice is evolving rapidly and has affected the diagnosis of disease as well as treatment decisions. Over the past decade, molecular diagnostic tests that analyze genomic material from tissue samples have emerged as an important complement to evaluations performed by pathologists. Information at the molecular level enables one to understand and identify more fully the makeup and specific subtype of disease to improve diagnosis. In many cases, the genomic information derived from these samples can help guide treatment decisions as part of the standard of care.

While genomic and technological advances are fueling the imagination about what is possible in medicine, we remain focused on delivering tests that change clinical decision making and improve patient outcomes.

We deploy machine learning algorithms, which leverage comprehensive ribonucleic acid, or RNA expression data, to develop tests for the improvement of diagnostic clarity for cancer and other diseases. In our thyroid and lung indications, diagnosis can be ambiguous in 15-70% of patients undergoing diagnostic evaluation depending on the indication. Our tests provide clarity of diagnosis that can in turn guide treatment decisions in 40-70% of those cases, eliminating costly, risky surgeries and other unnecessary medical procedures, improving the lives of patients and saving the healthcare system money.

Since our founding in 2008, we have commercialized three genomic classifiers that we believe are transforming diagnostics: the next-generation Afirma Genomic Sequencing Classifier, or GSC, and its predecessor, the Afirma Gene Expression Classifier, or GEC, for thyroid cancer; the Percepta Bronchial Genomic Classifier for lung cancer; and the Envisia Genomic Classifier for idiopathic pulmonary fibrosis, or IPF. Collectively, we believe these three tests address a $2 billion global market opportunity.

Patients typically access our tests through their physician during the diagnostic process. All of our testing services are made available through our clinical reference laboratories located in San Francisco, California and Austin, Texas, which are each certified under the Clinical Laboratory Improvement Amendments of 1988, or CLIA.

The published evidence supporting our tests demonstrates the robustness of our science and clinical studies. Patients and physicians can access our full list of publications on our website. Over 30 clinical studies covering our products have been published, including two landmark clinical validation papers published in The New England Journal of Medicine for the Afirma and Percepta classifiers, respectively. We continue to build upon our extensive library of clinical evidence. We also expect to continue expanding our offerings in thyroid cancer, lung cancer and interstitial lung diseases such as IPF, as well as other indications that we believe will benefit from our technology and approach.

We believe our focus on developing clinically useful tests that change patient care is enabling the company to set new standards in genomic test reimbursement. Our Afirma genomic classifier is now covered by every major health plan in the United States, covering more than 275 million people, for use in thyroid cancer diagnosis. It is available as an in-network, contracted offering to more than 175 million people nationwide through their insurers. Our second commercial product, the Percepta classifier, is the first genomic test to gain Medicare coverage for improved lung cancer screening and diagnosis, making it a covered benefit for more than 60 million people.

Company Background

We were incorporated in Delaware as Calderome, Inc. in August 2006. Calderome operated as an incubator until early 2008. We changed our name to Veracyte, Inc. in March 2008. Our principal executive offices are located at 6000 Shoreline Court, Suite 300, South San Francisco, California 94080 and our telephone number is (650) 243-6300. Our website address is www.veracyte.com. Our website and the information contained therein or connected thereto are not intended to be incorporated into this Annual Report on Form 10-K.

We make available free of charge on our website our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports as soon as reasonably practicable after we electronically file or furnish such materials to the Securities and Exchange Commission, or SEC. The reports are also available at www.sec.gov.

Fourth Quarter and Full-Year 2017 Financial Results

For the three- and twelve-month periods ended December 31, 2017, compared to the prior year:

- *Revenue* was $19.6 million and $72.0 million, respectively, an increase of 7% and 11%;
- *Genomic Volume* was 7,153 and 26,026 reported tests, respectively, an increase of 13% and 12%;

- *Gross Margin* was 60% and 61%, respectively, a decline of 4% and flat to prior year;
- *Operating Expenses, Excluding Cost of Revenue*, were $17.9 million and $70.3 million, respectively, an increase of 16% and 3%;
- *Net Loss and Comprehensive Loss* was ($8.4) million and ($31.0) million, respectively, an increase of 92% and decrease of 1%;
- *Basic and Diluted Net Loss Per Common Share* was ($0.24) and ($0.91), respectively, an increase of 71% and decrease of 17%;
- *Cash Burn*[(1)] was $6.1 million and $25.2 million, respectively, an increase of 31% and improvement of 22%; and
- *Cash and Cash Equivalents* was $33.9 million at December 31, 2017.

(1) Cash burn is a financial measure that is not calculated in accordance with generally accepted accounting principles in the United States, or U.S. GAAP. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations-Fourth Quarter and Full-Year 2017 Financial Results” in Part II. Item 7 of this Annual Report on Form 10-K for information regarding cash burn and a reconciliation of cash burn to net cash used in operating activities.

2017 and Recent Business Highlights

Commercial Expansion:

- In January 2018, achieved the milestone of 100,000 Afirma tests performed to date, with an estimated 40,000 unnecessary thyroid surgeries saved, penetrating the market by an estimated 35%.
- Launched the next-generation Afirma Genomic Sequencing Classifier on our RNA sequencing platform, further improving the test’s performance and expanding our comprehensive biorepository of genomic content to fuel future product innovation.
- Announced upcoming launch of the Afirma Xpression Atlas platform, providing physicians the most comprehensive genomic data available in a single assay to further inform surgery and treatment decisions for patients with suspected thyroid cancer.
- During the year, structured and significantly expanded our multi-product sales team by over 40% during the year, in preparation for driving Percepta growth in 2018.

Reimbursement Progress:

- Expanded the number of covered lives for Afirma by 70 million during 2017, bringing the total number of patients covered for the genomic test through their health insurers to over 275 million, including nearly 120 million Blues plan members, as of December 31, 2017.
- Expanded the number of contracted lives for Afirma by nearly 20 million during 2017, making the test an in-network covered benefit for over 175 million people, including nearly 45 million Blues plan members, as of December 31, 2017.
- Gained final Medicare coverage for Percepta through the MolDX program in May 2017, making it the first genomic test to be covered for use in lung cancer screening and diagnosis. The test is now available as a covered benefit for the nearly 60 million Medicare enrollees nationwide.
- Achieved Medicare pricing stability and transparency for Afirma through the Protecting Access to Medicare Act of 2014 (PAMA) implementation in January 2018, resulting in an increased reimbursement rate of approximately $3,600 per test from approximately $3,200 per test.
- Completed the package of clinical evidence needed to target Medicare coverage for the Envisia Genomic Classifier in 2018.

Evidence Development:

- Afirma - Presented 14 Afirma abstracts at four medical conferences, including four clinical utility studies demonstrating the long-term durability of a benign genomic test result during up to six years of follow-up and seven studies showing the enhanced Afirma GSC’s ability to identify significantly more benign thyroid nodules than the original Afirma test.
- Percepta - Presented three studies at major medical meetings demonstrating the clinical utility of the Percepta classifier and published a study in the *Journal of Thoracic Oncology* demonstrating the genomic test’s cost-effectiveness.
- Envisia - Presented five abstracts at leading pulmonology meetings and published three studies demonstrating the clinical validity, clinical utility and/or analytical verification of the Envisia classifier.

Our Products

We strive to develop and commercialize products that become the standard of care. Since our founding in 2008 we have commercialized three products:

Afirma Thyroid FNA Analysis - The centerpiece of our Afirma solution is the next-generation Afirma GSC and its predecessor, the Afirma GEC that is used to identify patients with benign thyroid nodules among those with indeterminate cytopathology results in order to preserve the thyroid. The Afirma classifier was developed using machine learning that is based on ensemble methods in which multiple algorithms - each playing its own role - are used to interpret massive amounts of RNA sequencing genomic data and obtain a better predictive performance than any single algorithm on its own. The Afirma product is the first of its kind to market, and we believe the market leader.

Percepta Bronchial Genomic Classifier - The 23-gene Percepta classifier improves lung cancer screening and diagnosis by increasing the diagnostic performance of bronchoscopies and identifying patients with lung nodules who are at low risk of cancer, without the need for more invasive procedures. The test leverages the field of injury concept and analyzes genomic changes that occur in the epithelial cells lining the airways of current or former smokers to assess a patient's risk of having lung cancer, without the need to test the often-hard-to-reach nodule directly. The Percepta classifier is the first product of its kind to be available commercially and the first to obtain Medicare coverage for the improved screening and diagnosis of lung cancer.

Envisia Genomic Classifier - The Envisia classifier is designed to improve physicians' ability to differentiate IPF, from other interstitial lung diseases, or ILD, without the need for invasive and potentially risky surgery. The Envisia classifier uses machine learning coupled with powerful, deep RNA sequencing to detect the presence or absence of usual interstitial pneumonia, or UIP, a classic diagnostic pattern whose presence is essential for the diagnosis of IPF. The Envisia classifier is the first product of its kind to market and we are in the process of securing Medicare coverage for the test.

Our Pipeline

We believe we have a rich pipeline to sustain long-term growth. We characterize the stages of a product's development as progressing from discovery to development, to commercialization, to Medicare coverage and, finally, to private insurance coverage. The following pipeline describes internally developed products, product extensions and new indications. We also continue to evaluate acquisitions of intellectual property and corporate acquisitions that we believe answer clinically meaningful questions to enable better patient outcomes.

Endocrinology

- *Afirma Xpression Atlas* - We are developing the Afirma Xpression Atlas, an extension to our current Afirma product, which will provide physicians with significant amounts of information about genomic mutational and fusion variants that have been associated with thyroid cancer. Having this information may help inform physicians' treatment decisions.

- *Risk of Recurrence* - We are in the development phase for a risk of recurrence classifier, which may help inform treatment and ongoing surveillance of thyroid cancer once it is diagnosed.

Pulmonology

- *Expanded Indications for the Percepta Classifier* - We are evaluating enhancements to our product, which we envision would allow us to expand the intended use population for our test.

- *Nasal Classifier* - We are in the discovery phase for a nasal test, based on our proprietary "field of injury" technology, which would potentially allow us to develop a less invasive test for early detection of lung cancer.

- *Rx Response* - We are in the discovery phase for a test that could help guide treatment decisions for IPF patients based upon their genomic profile.

Market Opportunity

We believe diagnostic uncertainty is a critical healthcare issue that leads to hundreds of thousands of unnecessary surgeries, delayed or potentially harmful treatments and billions of wasted healthcare dollars each year. We believe that our three commercial

tests address a $2 billion global market opportunity and that our markets are expanding due to increased screening or other market factors.

Thyroid Market Opportunity for Our Afirma Solution

Each year in the United States, we estimate that among the 525,000 patients who undergo a fine needle aspiration, or FNA, biopsy, 15 to 30 percent of results are inconclusive, or indeterminate, meaning not clearly benign or malignant. Historically, most of these patients were directed to thyroid surgery for a more definitive diagnosis. Following surgery, however, 70 to 80 percent of cases proved to be benign, meaning the surgery was unnecessary. We believe our Afirma GSC classifies approximately 70% of benign cases on which it is used as benign, thereby potentially allowing the avoidance of an estimated 100,000 surgeries annually.

We believe the addressable market opportunity for our Afirma solution is approximately $800 million globally, $500 million in the United States and $300 million internationally. We believe that we have penetrated approximately 35% of the United States thyroid FNA market for the Afirma GEC. We currently do not have meaningful operations or sales outside the United States.

Lung Cancer Market Opportunity for Our Percepta Classifier

Lung cancer is often difficult to diagnose without invasive, risky and costly surgeries. Approximately 225,000 people are diagnosed with lung cancer each year in the U.S. and nearly 160,000 people die annually from lung cancer. We estimate that approximately 1.8 to 2.0 million lung nodules are identified in patients in the United States each year and that doctors perform approximately 350,000 bronchoscopies on these patients. A bronchoscopy is a non-surgical procedure that is often used to evaluate patients with potentially cancerous lung nodules, but produces inconclusive results in up to 70% of cases. We estimate that the number of bronchoscopies performed would potentially increase - in lieu of invasive procedures - if physicians had more confidence in bronchoscopy’s ability to provide clear results. Currently, we estimate that approximately 140,000 patients undergoing bronchoscopy have inconclusive results and could potentially benefit from our test. We believe our Percepta product can improve the diagnostic performance of bronchoscopy and classify approximately 44% of these patients as low risk or very low risk for lung cancer, saving approximately 60,000 patients from potentially having to undergo diagnostic surgeries.

We believe the addressable market opportunity for our Percepta product is approximately $425 million to $525 million in the United States and over $200 million in Europe. We anticipate the market will expand significantly over the coming years as lung cancer screening programs are implemented in the United States and physicians embrace bronchoscopy as a standard, less-invasive diagnostic modality for evaluating lung nodules and lesions.

In May 2017, we obtained positive Medicare coverage for Percepta through the MolDX program, administered by the Medicare Administrative Contractor, or MAC, Palmetto GBA, making it the first genomic test to be covered for use in lung cancer screening and diagnosis. The effect of these coverage decisions is that the test is available to nearly 60 million Medicare enrollees. Following Medicare coverage, in 2017 we began expanding commercialization of the Percepta classifier.

IPF Market Opportunity for Our Envisia Classifier

Each year in the United States and Europe, up to 200,000 patients are suspected of having an ILD, including IPF, which is among the most common and deadly of these lung-scarring diseases. IPF is notoriously difficult to diagnose, often leading to treatment delays, repeated misdiagnoses, patient distress and added healthcare expense. Physicians routinely use high-resolution computed tomography imaging, or HRCT, to identify UIP, the pattern whose presence is essential to IPF diagnosis. This approach, however, frequently provides inconclusive results, leading many patients to require surgery to secure a more definitive diagnosis using surgical histopathology. These surgeries are risky and expensive, and many patients are too frail to undergo the procedure. Of the approximate 200,000 patients evaluated for ILD annually, we estimate that approximately 75%, or 150,000 patients receive an uncertain diagnosis and are candidates for our Envisia test.

We believe the addressable market opportunity for our Envisia product is approximately $300 million to $350 million in the United States and over $200 million in Europe. We believe we have developed the evidence to support Medicare coverage of the Envisia classifier, after which we will begin ramping commercialization of the test.

Scientific Background

In the past, clinicians made diagnoses from biopsy samples by looking at them under a microscope. Technology has advanced far beyond this, and scientists now have the ability to decipher genomic patterns that reside in the DNA and RNA of the biopsies we test. Ultimately, we search for patterns that tell us whether or not the biopsy contains the disease in question. We do this by using a whole-genome approach. This means we look at all of the human genes, including their expression patterns and their variants and mutations, rather than just looking at a few selected genes that we think may be important. This complex information requires computer-based algorithms to make sense of the patterns. This comprehensive measurement of the human genome allows us to detect signals from genes we may not have previously suspected to be involved in disease.

We use machine learning computer-based algorithms to match genomic patterns with clinical truth, or the true diagnosis. For example, when we train an algorithm on RNA sequencing data, we teach it to associate a set of expression patterns with disease and a different set of patterns with lack of disease. When algorithms are trained on enough examples with clinical truth, they learn to find that pattern in samples they have never encountered, thus allowing the algorithm to predict disease in a clinical setting.

Our core products are built around algorithms that either rule-in or rule-out disease. Due to the complex, sometimes rare, subtypes of various diseases like cancer, we develop and train our machine learning algorithms using a diverse set of patient samples so that they are equipped to recognize patterns across the whole spectrum of conditions that may be encountered in the clinic.

Our process uses commercially available reagents and instruments with our own proprietary process and protocols, which results in RNA extraction from the range of biopsies used in our clinical development studies and our commercial laboratory tests.

Technology

Our technology approach is comprised of a number of key attributes:

Core Expertise in Broad-based Genomic Analysis - Our team of bioinformatics and computational scientists possess extensive knowledge of both existing computational methods as well as the capacity to develop proprietary methods as needed for algorithm design. We demonstrated our ability to utilize large amounts of genomic data with machine learning algorithms in the development of the Afirma GEC on microarrays. We have extended this capability substantially by accessing genomic features through deep RNA sequencing. This allows us to use a combination of expression analysis as well as mutations and variants to build our sophisticated machine learning algorithms, all on the same platform.

Platform-Agnostic Approach - We are not reliant on any one technology platform to measure genomic signals; in fact, we may take advantage of a multitude of genomic methodologies to develop future tests. When we developed the Afirma GEC in 2008, microarray technologies were a cost-effective discovery technology compared to other approaches that were nascent at the time. More recently, the rapid cost reductions achieved in next generation sequencing platforms have allowed us to pursue our whole genome approach to biomarker discovery using a range of genomic features obtained through both DNA and RNA sequencing. From this vast array of sequence data, our algorithms select those genomic signals that inform on the disease in question, in the relevant biopsy sample. We continue to evaluate potential opportunities to use new genomic discoveries and technologies to further improve patient care.

Proprietary Capabilities in Analyzing Small, Heterogeneous Cytology Samples - We have developed proprietary technology, intellectual property and know-how for optimized methods for extraction and analysis of nanogram quantities of RNA from small biopsy samples. Our focus is on redefining clinical truth, using patient samples obtained through less-invasive techniques, thereby increasing access to our technology by a larger patient population. While others can extract RNA from these small biopsies, we believe our process is optimized and scaled for high-throughput clinical testing and large-scale clinical development studies, such as those involving high-density microarrays and next-generation sequencing.

Precision and Reproducibility - We have in place standard operating procedures governing reagents, materials, instruments and controls and extensive experience from numerous verification studies performed for our tests. We apply the same high-quality control methods that were developed for our reagents and processes, along with our proprietary software for automation, sample tracking, data quality control and statistical analysis, to our development process.

Studies Validating Test Performance and Clinical Utility

In 2010, the Centers for Disease Control and Prevention published the “ACCE” model as a paradigm for establishing evidence to confirm the safety and effectiveness of molecular diagnostic tests. ACCE derives its name from the main criteria for evaluating

such tests, including analytic validity, clinical validity and clinical utility. This model has been adopted by most technology assessment groups, professional societies and payers. We fully embrace this paradigm of evidence development and we strive to provide the highest level of scientific evidence to support our test claims.

We believe that developing an extensive library of rigorous clinical evidence to support our tests is critical to driving inclusion in clinical guidelines, securing reimbursement and gaining physician adoption. We make our published research, abstracts from medical conferences and other product information available on our website at www.veracyte.com. Our website and the information contained therein or connected thereto are not intended to be incorporated into this Annual Report on Form 10-K.

Our Afirma product is supported by more than 20 published scientific studies, including a prospective, multicenter clinical validation study published in *The New England Journal of Medicine*, which suggested that the test can significantly reduce the number of unnecessary surgeries. The Afirma product is recommended in leading practice guidelines and is covered for over 275 million lives in the United States, including through Medicare and all major commercial insurance plans in the United States.

Our Percepta test is supported by six published scientific studies, including data published in *The New England Journal of Medicine*, which demonstrate the test's accuracy in identifying patients who are at low risk of cancer following inconclusive results from bronchoscopy. These patients may then be monitored with CT scans in lieu of undergoing surgery - a frequent next step at this juncture of the clinical pathway. A clinical utility study published in the journal *CHEST* suggested that use of the test may reduce unnecessary surgeries by 50 percent in the target patient population.

We continue to build our library of clinical evidence to support our Envisia product. Our test is supported by one clinical validation study with a second validation (manuscript) in process, one analytical validation study, and two clinical utility studies that demonstrate the unmet clinical need and potential utility of the test when used by subspecialty physicians.

Commercial Operations

Our commercial infrastructure, including our sales, marketing, managed care, and customer care functions, is critical to our ongoing success. We have built a strong domestic sales, marketing and reimbursement capability that interacts directly with users of our products, as well as payers and other stakeholders involved in the diagnostic workup of a patient.

Our sales team is structured to sell all of our products; we do not maintain a separate sales force for each product. Currently, our sales force is comprised of our Product Specialists, who are accountable for select geographic territories; Pulmonary Product Specialists, who maintain and grow our relationships with key regional institutions; Account Managers, who manage existing client relationships; and Medical Science Specialists, who focus on addressing medical and clinical education in the field.

In conjunction with the termination of our U.S. co-promotion agreement with Genzyme Corporation in September 2016, we continued to hire additional sales people in 2017 and, as of December 31, 2017, we had approximately 70 sales team members. In 2018, we expect to continue to hire sales people to support our commercial efforts.

To date, substantially all of our revenue has been derived from customers we serve in the United States. Through December 31, 2017, we derived most of our revenue from our Afirma solution, including cytopathology services and the Afirma assays.

We also offer Afirma in markets outside the United States through third-party promotion agreements and distribution agreements. We do not expect meaningful revenue from international sales in the near future.

Our marketing team includes product managers responsible for the development and execution of strategies for each of our products, to establish our products as standard of care and support their adoption and usage. Strategies include driving awareness for our tests among ordering clinicians, incorporating our tests into clinical protocols, building on existing accounts to increase adoption and providing tools and tactical support to the sales team.

Industry trade shows or events provide us with an opportunity to make important product announcements, communicate directly with our clients and partners and to interact with key opinion leaders who impact our business. We typically attend a number of select industry conferences, including the Annual Meeting of the American Thyroid Association, or ATA; the Annual Scientific and Clinical Congress of the American Association of Clinical Endocrinologists, or AACE; the Endocrine Society's Annual Meeting, or ENDO; the American Thoracic Society's International Conference, or ATS; the American College of Chest Physician's CHEST Annual Meeting and the Pulmonary Fibrosis Foundation's bi-annual PFF Summit.

Laboratory Operations

We perform all of our genomic testing in our CLIA-certified laboratory in South San Francisco, California. We perform slide preparation and staining for cytopathology on fine needle aspiration, or FNA, samples in our CLIA certified laboratory in Austin, Texas. Our South San Francisco facility is responsible for quality assurance oversight, licensing and regulatory compliance and maintenance for both of our laboratories to ensure data integrity and consistent, validated processes.

We receive samples for testing directly from the following sources:

FNAs for Afirma Genomic Testing Only - Institutions and other clients, such as laboratories, that perform their own cytopathology may send us FNA samples from indeterminate results to perform Afirma genomic testing. We receive over 60% of our Afirma test volume from this source and it is the fastest-growing segment of our business.

FNAs for Cytopathology and Reflexed Afirma Genomic Testing - We receive FNA samples from ordering physicians for cytopathology assessment and if results are indeterminate, Afirma genomic testing is to be performed. We partner with Thyroid Cytopathology Partners, or TCP, to perform the cytopathology review.

Bronchoscopy Samples for Percepta Classifier - Institutions and laboratories that perform their own cytopathology may send us samples collected during the bronchoscopy procedure and order genomic testing with the Percepta classifier when bronchoscopy results are inconclusive.

In 2016, we moved into a state-of-the-art laboratory space that we built out in South San Francisco, California. We believe that we have sufficient laboratory capacity to accommodate volume growth for our existing products and products in our pipeline.

We rely on TCP to provide professional cytopathology diagnoses on thyroid FNA samples pursuant to a pathology services agreement. TCP has the exclusive right to provide the cytopathology diagnoses on FNA samples that are referred to us at a fixed price per test. TCP can terminate the agreement upon our failure to pay any amounts due under the contract, and either we or TCP can terminate the agreement upon the insolvency of the other party, breach of the agreement by the other party, termination or breach of the service terms or the suspension or termination of the necessary regulatory licenses and approvals needed to perform the FNA diagnoses. TCP is co-located in a portion of our facilities in Austin, Texas and reimburses us for a portion of our actual out-of-pocket rental and related operating expense costs. We amended and restated our agreement with TCP in October 2017 and the agreement is effective until October 31, 2022 and thereafter automatically renews every year unless either party provides notice of intent not to renew at least twelve months prior to the end of the then-current term.

Our quality assurance function oversees the quality of our laboratories as well as the quality systems used in research and development, client services, billing operations and sales and marketing. We have an established quality management system compliant with federal and state regulations and standards that we believe achieves excellence in operations across the entire business. We continuously monitor and strive to improve our quality program and believe our implementation of these processes has supported our achievement of product performance, customer satisfaction and retention and a philosophy of continuous improvement.

Reimbursement Strategy

We employ a multi-pronged strategy designed to achieve broad coverage and reimbursement for our tests:

- *Compile a Growing Library of Peer-reviewed Studies that Demonstrate the Test Is Effective* - To date, several peer-reviewed articles and review papers have been published and have helped support our efforts aimed at widespread adoption and reimbursement of our genomic tests. In each disease area we pursue, we intend to conduct studies in order to develop robust library of evidence.

- *Meet the Evidence Standards Necessary to Be Consistent with Leading Clinical Guidelines* - We believe inclusion in leading clinical practice guidelines plays an important role in payers' coverage decisions. For example, the data published on Afirma to date is consistent with the recommendations of the widely-recognized American Thyroid Association and National Comprehensive Cancer Network clinical practice guidelines.

- *Execute an Internal Managed Care and Claims Adjudication Function as Part of Our Core Business Operations* - We believe that obtaining adequate and widespread reimbursement is a critical factor in our long-term success. We employ a team of in-house claims processing and reimbursement specialists who work with payers, physician practices and patients to obtain maximum reimbursement.

- *Collaborate with Network of Key Opinion Leaders* - Key opinion leaders are able to impact clinical practice by publishing research and determining whether new tests should be integrated into practice guidelines. We collaborate with key opinion leaders early in the development process to ensure our clinical studies are designed and executed in a way that clearly demonstrates the benefits of our tests to patients, physicians and payers. Ongoing studies to support real world experience with our tests are also a key component of our efforts to collaborate with physician thought leaders.

- *Established Payer Relationships and In-network Contracts* - We believe that positive engagement with payers leads to coverage decisions and facilitates our efforts on coverage and contract decisions for subsequent tests.

Coverage, Coding and Reimbursement

Revenue from our Afirma tests comes from several sources, including commercial third-party payers, such as insurance companies and health maintenance organizations, government payers, such as Medicare and Medicaid, and patients. We believe that reimbursement for our lung products will be derived from similar sources, but with a greater proportion coming from Medicare due to the older age of the target patient population.

We received Medicare coverage for our Afirma classifier in 2012 through the MolDX program, administered by the MAC, Palmetto GBA. The Medicare rate for Afirma has remained approximately $3,200 through 2017. PAMA required Medicare to base Clinical Laboratory Fee Schedule, or CLFS, payment rates on the volume-weighted median of private payer rates. In the first quarter of 2017, we reported to the Centers for Medicare & Medicaid Services, or CMS, private payer rates and volumes for our tests based on final payments from the first two quarters of 2016. In November 2017, CMS finalized CLFS payment rates based on these data, resulting in an increase in the CLFS payment rate for Afirma from $3,220 to $3,600 effective January 1, 2018 through December 31, 2020. We submit claims to payers directly for the Afirma GEC, and its next generation Afirma GSC, using a unique American Medical Association Current Procedural Terminology code, or CPT code 81545.

To date, a high percentage of FNA samples received are accessioned for cytopathology, for which we bill both the technical and professional component using established CPT codes.

In May 2017, a Local Coverage Determination went into effect for our Percepta classifier through the MolDX program. A payment rate for the test was also established through MolDX. We plan to bill payers directly for the Percepta classifier using an “unlisted” CPT code until we obtain a specific code for the test. We have submitted the dossier of clinical evidence needed to obtain Medicare coverage for the Envisia Genomic Classifier through the MolDX technical assessment process.

State Medicaid programs typically make their own decisions with respect to coverage for our tests, as do private payers. We rely on a small number of third-party payers for a significant portion of our revenue, the loss of one or more of which would have a negative effect on our business. For the years ended December 31, 2017, 2016 and 2015, respectively, revenue was represented by the indicated percent for each payer:

- Medicare accounted for 26%, 27% and 26% of our revenue; and
- UnitedHealthcare accounted for 14%, 12% and 14% of our revenue.

Competition

We believe the principal competitive factors in the markets we target with our tests include:

- the ability of the test to answer the appropriate clinical question at the right point in the clinical pathway;
- the quality and strength of clinical validation and utility data;
- confidence in diagnostic results backed by analytical verification data;
- the extent of reimbursement and in-network payer contracts;
- inclusion in practice guidelines;
- cost-effectiveness; and
- ease of use.

We believe we compete favorably on the factors described above with our Afirma solution and are positioning ourselves to compete effectively on these factors with our Percepta and Envisia classifiers.

Our principal competition for the Afirma solution comes from traditional methods used by physicians to diagnose thyroid cancer. Physicians in the United States have historically recommended that patients with indeterminate diagnoses from cytopathology results be considered for surgery to remove all or part of the thyroid to rule out cancer. This practice has been the standard of care in the United States, as well as in many international markets, for many years, and we continue to educate physicians about the benefits of our test in order to change clinical practice.

We also face competition from companies and academic institutions that use next generation sequencing technology or other methods to measure mutational markers such as BRAF and KRAS, along with numerous other mutations. These organizations include Interpace Diagnostics Group, Inc., CBLPath, Inc./University of Pittsburgh Medical Center, Rosetta Genomics Ltd., and others who are developing new products or technologies that may compete with our tests. In the future, we may also face competition from companies developing new products or technologies.

With the Percepta and Envisia tests, we believe our primary competition will similarly come from traditional methods used by physicians to diagnose the related diseases. For the Percepta test, we expect competition from companies focused on lung cancer such as Integrated Diagnostics, Inc., Oncocyte Corporation and Oncimmune Holdings PLC. We also anticipate facing potential competition from companies offering or developing approaches for assessing malignancy risk in patients with lung nodules using alternative samples, such as blood, urine or sputum. However, such "liquid biopsies" are often used earlier in the diagnostic paradigm - for instance, to screen for cancer - or to gauge risk of recurrence or response to treatment.

In general, we also face competition from commercial laboratories, such as Laboratory Corporation of America Holdings, Quest Diagnostics Incorporated and Sonic Healthcare USA with strong infrastructure to support the commercialization of diagnostic services. We face potential competition from companies such as Illumina, Inc. and Thermo Fisher Scientific Inc., both of which have entered the clinical diagnostics market. Other potential competitors include companies that develop diagnostic products, such as Roche Diagnostics, a division of Roche Holding Ltd, Siemens AG and Qiagen N.V.

Competitors may develop their own versions of our solution in countries in which we do not have patents or where our intellectual property rights are not recognized and compete with us in those countries, including encouraging the use of their solution by physicians in other countries.

Many of our potential competitors have widespread brand recognition and substantially greater financial, technical and research and development resources and selling and marketing capabilities than we do. Others may develop products with prices lower than ours, which could be viewed by physicians and payers as functionally equivalent to our solution, or offer solutions at prices designed to promote market penetration, which could force us to lower the list price of our solutions and affect our ability to achieve profitability. If we are unable to change clinical practice in a meaningful way or compete successfully against current and future competitors, we may be unable to increase market acceptance and sales of our products, which could prevent us from increasing our revenue or achieving profitability and could cause the market price of our common stock to decline. As we add new tests and services, we will face many of these same competitive risks for these new tests.

Regulation

Clinical Laboratory Improvement Amendments of 1988, or CLIA

As a clinical reference laboratory, we are required to hold certain federal, state and local licenses, certifications and permits to conduct our business. We are subject to CLIA, a federal law that regulates clinical laboratories that test specimens derived from humans for the purpose of providing information for the diagnosis, prevention or treatment of disease. Under CLIA, which is administered by CMS, we are required to hold a certificate applicable to the type of laboratory examinations we perform and to comply with standards covering personnel qualifications, facilities administration, quality systems, inspections, and proficiency testing.

We have current certificates under CLIA to perform testing at each of our locations. To renew our CLIA certificates, we are subject to survey and inspection every two years to assess compliance with program standards. The regulatory and compliance standards applicable to the testing we perform may change over time, and any such changes could have a material effect on our business.

If one of our clinical reference laboratories is out of compliance with CLIA requirements, we may be subject to sanctions such as suspension, limitation or revocation of our CLIA certificate, as well as directed plan of correction, state on-site monitoring, civil money penalties, civil injunctive suit or criminal penalties. We must maintain CLIA compliance and certification to sell our tests and be eligible to bill for diagnostic services provided to Medicare beneficiaries. If we were to be found out of compliance with CLIA requirements and subjected to sanctions, our business could be harmed.

State Laboratory Licensing

California Laboratory Licensing

In addition to federal certification requirements of laboratories under CLIA, licensure is required and maintained for our South San Francisco clinical reference laboratory under California law. Such laws establish standards for the day-to-day operation of a clinical reference laboratory, including the training and skills required of personnel and quality control. In addition, California laws mandate proficiency testing, which involves testing of specimens that have been specifically prepared for the laboratory.

If our clinical reference laboratory is out of compliance with California standards, the California Department of Public Health, or CDPH, may suspend, restrict or revoke our license to operate our clinical reference laboratory, assess substantial civil money penalties, or impose specific corrective action plans. Any such actions could materially affect our business. We maintain a current license in good standing with CDPH. However, we cannot provide assurance that CDPH will at all times in the future find us to be in compliance with all such laws.

New York Laboratory Licensing

Our clinical reference laboratories are required to be licensed by New York, under New York laws and regulations before we receive specimens from New York State. The license establishes standards for:

quality management systems;

qualifications, responsibilities, and training;

facility design and resource management;

pre-analytic, analytic (including validation and quality control), and post-analytic systems; and

quality assessments and improvements.

New York law also mandates proficiency testing for laboratories licensed under New York state law, regardless of whether such laboratories are located in New York. If a laboratory is out of compliance with New York statutory or regulatory standards, the New York State Department of Health, or NYSDOH, may suspend, limit, revoke or annul the laboratory's New York license, censure the holder of the license or assess civil money penalties. Statutory or regulatory noncompliance may result in a laboratory's operator being found guilty of a misdemeanor under New York law. NYSDOH also must approve the laboratory developed tests, or LDT, before the test is offered in New York; approval has been received for the Afirma GEC and the Percepta classifier. Should we be found out of compliance with New York laboratory standards of practice, we could be subject to such sanctions, which could harm our business. We maintain a current license in good standing with NYSDOH for our South San Francisco and Austin laboratories. We cannot provide assurance that the NYSDOH will at all times find us to be in compliance with applicable laws.

Other States' Laboratory Licensing

In addition to New York and California, other states require licensing of out-of-state laboratories under certain circumstances. Pennsylvania, Maryland and Rhode Island require licenses to test specimens from patients in those states and Florida requires a license to receive specimens from a clinical laboratory in that state. We have obtained licenses from states where we believe we are required to be licensed, and believe we are in compliance with applicable licensing laws.

From time to time, we may become aware of other states that require out-of-state laboratories to obtain licensure in order to accept specimens from the state, and it is possible that other states do have such requirements or will have such requirements in the future. If we identify any other state with such requirements or if we are contacted by any other state advising us of such requirements, we intend to comply with such requirements.

United States Regulation of Laboratory Testing

Food and Drug Administration: Diagnostic Kits

Diagnostic kits, including collection systems, that are sold and distributed through interstate commerce are regulated as medical devices by the FDA. Devices subject to FDA regulation must undergo premarket review prior to commercialization unless

the device is of a type exempted from such review. In addition, manufacturers of medical devices must comply with various regulatory requirements under the Federal Food, Drug, and Cosmetic Act, or FDC Act, and implementing regulations promulgated under that Act. Entities that fail to comply with FDA requirements may be subject to issuance of notice of observations, untitled or warning letters, and can be liable for criminal or civil penalties, such as recalls, import detentions, seizures, or injunctions, including orders to cease manufacturing.

The FDC Act classifies medical devices into one of three categories based on the risks associated with the device and the level of control necessary to provide reasonable assurance of safety and effectiveness. Class I devices are deemed to be low risk and are subject to the fewest regulatory controls. Most Class I devices are exempt from FDA premarket notification requirements. For Class II devices, the FDA generally requires the submission of a premarket notification, or 510(k) showing that the device is substantially equivalent to a legally marketed device, before FDA will clear the device for marketing. Class III devices are considered high risk devices and are subject to the highest level of regulatory control to provide reasonable assurance of the device's safety and effectiveness. Class III devices require the submission and FDA approval of a premarket application, or PMA, before they can be marketed.

Generally, establishments that manufacture or distribute devices, including manufacturers, repackagers and relabelers, specification developers, and initial importers, are required to register and list their device products with the FDA.

After a device is cleared or approved for marketing, numerous regulatory requirements apply. These include: good manufacturing practice for medical devices as set out in the Quality System Regulation, or QSR, labeling regulations, restrictions on promotion and advertising, the Medical Device Reporting, or MDR, regulation (which requires that manufacturers report to the FDA), and the Reports of Corrections and Removals regulation (which requires manufacturers to report certain recalls and field actions to the FDA).

The FDA has issued a regulation outlining specific requirements for "specimen transport and storage containers." "Specimen transport and storage containers" are medical devices "intended to contain biological specimens, body waste, or body exudate during storage and transport" so that the specimen can be destroyed or used effectively for diagnostic examination. A specimen transport and storage container that is not labeled or otherwise represented as sterile, is classified as a Class I exempt device, which means that the device is exempt from premarket notification and the QSR, except for recordkeeping and complaint handling requirements. These 510(k) exempt devices are also subject to MDR requirements, the reporting of corrections and removals, and establishment registration and product listing. Our facility is registered with the FDA as a specification developer, which means that we can sell the collection system under our own name and outline the specifications used to make the collection system, but a third party assembles the collection system for us. The containers we provide for collection and transport of Afirma GEC or GSC and Percepta samples from a physician to our clinical reference laboratory are listed as Class I devices with the FDA under the specimen transport and storage container regulatory product classification. We also plan to list our sample collection containers for Envisia samples with the FDA as Class I devices. If the FDA were to determine that our sample collection containers are not Class I devices, we would be required to file 510(k) applications and obtain FDA clearance to manufacture and market the containers, which could be time consuming and expensive.

The FDA enforces the requirements described above by various means, including inspection and market surveillance. If the FDA finds a violation, it can institute a wide variety of enforcement actions, ranging from an Untitled Letter or Warning Letter to more severe sanctions such as:

fines, injunctions, and civil penalties;

recall or seizure of products;

operating restrictions, partial suspension or total shutdown of production; and

criminal prosecution.

Federal Oversight of Laboratory Developed Tests and Research Use Only Products

Clinical laboratory tests like our proprietary genomic tests are regulated under CLIA, as administered by CMS, as well as by applicable state laws. Clinical laboratory tests that are developed and validated by a laboratory are referred to as laboratory developed tests, or LDTs, by the FDA. Currently, FDA believes these tests meet the definition of a device under the FDA Act; however, the FDA is currently exercising enforcement discretion for LDTs, meaning that FDA is generally not requiring clinical laboratories performing a LDT to comply with FDA regulations, although reagents, instruments, software or components provided by third parties and used to perform LDTs may be subject to FDA regulation. We believe that the Afirma, Percepta and Envisia

classifiers are LDTs for which FDA is currently exercising its enforcement discretion. In October 2014, the FDA published a draft guidance document proposing a framework for the regulation of LDTs. In November 2016, the FDA announced that it would not finalize guidance and would instead work with the new Administration, Congress and stakeholders on an updated framework. In January 2017, the FDA issued a discussion paper on LDTs in which it synthesized stakeholder feedback and outlined a substantially revised "possible approach" to the oversight of LDTs, which did not represent a formal position of the FDA, and is not enforceable. FDA's enforcement discretion policy is expected to remain in place unless and until FDA announces and implements a different approach to the regulation of LDTs.

Some of the materials we use for our tests and that we may use for future tests are intended and labeled for research use only, or RUO, or investigational use only, or IUO. An RUO product cannot be used for any human clinical purpose and must be labeled "For Research Use Only. Not for use in diagnostic procedures." RUOs are a separate regulatory category and include in vitro diagnostic devices that are in the laboratory research phase of development. They are therefore not subject to most FDA regulatory requirements so long as they are properly labeled and used in accordance with such labeling. RUOs cannot be marketed with any claims that the device is safe, effective, or has diagnostic utility, or is intended for human clinical diagnostic or prognostic use. In November 2013, the FDA issued final guidance titled "Distribution of In-Vitro Diagnostic Products Labeled for Research Use Only or Investigational Use Only" in which FDA stated that the manufacturer's objective intent for an RUO or IUO product's intended use will be determined by examining the totality of circumstances, including advertising, instructions for clinical interpretation, presentations that describe clinical use, and specialized technical support, surrounding the distribution of the product in question.

We cannot predict the ultimate form or impact of any such RUO/IUO, LDT or other guidance and the potential effect on our solutions or materials used to perform our diagnostic services. While we qualify all materials used in our diagnostic services according to CLIA regulations, we cannot be certain that the FDA might not promulgate rules or issue guidance documents that could affect our ability to purchase materials necessary for the performance of our diagnostic services. Should any of the reagents obtained by us from vendors and used in conducting our diagnostic services be affected by future regulatory actions, our business could be adversely affected by those actions, including increasing the cost of service or delaying, limiting or prohibiting the purchase of reagents necessary to perform the service.

We cannot provide any assurance that FDA regulation, including premarket review, will not be required in the future for our diagnostic services, whether through additional guidance or regulations issued by the FDA, new enforcement policies adopted by the FDA or new legislation enacted by Congress. Legislative proposals addressing oversight of LDTs were introduced in recent years, and we expect that new legislative proposals will be introduced from time to time. It is possible that legislation could be enacted into law or regulations or guidance could be issued by the FDA which may result in new or increased regulatory requirements for us to continue to offer our tests or to develop and introduce new tests.

If premarket review, including approval, is required, our business could be negatively affected until such review is completed and clearance to market or approval is obtained, and the FDA could require that we stop selling our tests pending premarket clearance or approval. If our tests are allowed to remain on the market but there is uncertainty about the legal status of our services, if we are required by the FDA to label them investigational, or if labeling claims the FDA allows us to make are limited, order levels may decline and reimbursement may be adversely affected. The regulatory process may involve, among other things, successfully completing additional clinical studies and submitting a premarket notification or filing a PMA with the FDA. If premarket notification or approval is required by the FDA, there can be no assurance that our tests will be cleared or approved on a timely basis, if at all, nor can there be any assurance that approved labeling claims or labeling claims subject to cleared indications for use will be consistent with our current claims or adequate to support continued adoption of and reimbursement for our solutions. Ongoing compliance with FDA regulations would increase the cost of conducting our business, and subject us to heightened requirements of the FDA and penalties for failure to comply with these requirements. We may also decide voluntarily to pursue FDA premarket review of our tests to obtain marketing clearance or approval if we determine that doing so would be appropriate.

Privacy and Fraud and Abuse Compliance

Health Insurance Portability and Accountability Act

Under the federal Health Insurance Portability and Accountability Act of 1996, or HIPAA, the Department of Health and Human Services, or HHS, has issued regulations to protect the privacy and security of protected health information used or disclosed by health care providers, such as us. HIPAA also regulates standardization of data content, codes and formats used in health care transactions and standardization of identifiers for health plans and providers. In 2009, Congress amended HIPAA through the Health Information Technology for Economic and Clinical Health Act, or HITECH. The implementing regulations of HIPAA, as amended by HITECH, were last modified in 2013 and resulted in significant changes to the privacy, security, breach notification,

and enforcement requirements with which we must comply. Among these changes, covered entities are now vicariously liable for violations of HIPAA resulting from acts or omissions of their business associates where the business associate is an agent of the covered entity and was acting within the scope of its agency, regardless of whether the covered entity and business associate entered into a business associate agreement in compliance with HIPAA. Penalties for violations of HIPAA regulations include civil and criminal penalties.

We have developed and implemented policies and procedures designed to comply with HIPAA's privacy, security, and breach notification requirements. We may not use or disclose protected health information in any form, including electronic, written, or oral, in a manner that is not permitted under HIPAA, and we are required to implement security measures to ensure the confidentiality, integrity, and availability of the electronic protected health information that we create, receive, maintain, or transmit. While we have some flexibility in determining which security safeguards are reasonable and appropriate to implement for our operations, it nonetheless requires significant effort and expense to ensure continuing compliance with the HIPAA security rule. We are also required to comply with the administrative simplification standards under HIPAA when we conduct the electronic transactions regulated by HIPAA, including by using standard code sets and formats and standardized identifiers for health plans and providers. The requirements under HIPAA and its implementing regulations may change periodically and could have an effect on our business operations if compliance becomes substantially costlier than under current requirements.

In addition to federal privacy regulations, there are a number of state laws governing confidentiality of health information that are applicable to our business. New laws governing privacy may be adopted in the future from time to time. We have taken steps to comply with health information privacy requirements to which we are aware that we are subject. However, we can provide no assurance that we are or will remain in compliance with diverse privacy requirements in all of the jurisdictions in which we do business. Failure to comply with privacy requirements could result in civil or criminal penalties, which could have a materially adverse effect on our business.

Corporate Practice of Medicine

Numerous states, including California and Texas, have enacted laws prohibiting corporations such as us from practicing medicine and employing or engaging physicians to practice medicine. These laws are designed to prevent interference in the medical decision-making process by anyone who is not a licensed physician. This prohibition is generally referred to as the prohibition against the corporate practice of medicine. Violation of this prohibition may result in civil or criminal fines, as well as sanctions imposed against us or the professional through licensing proceedings. The pathologists who review and classify thyroid FNA cytopathology results for Afirma are employed by Thyroid Cytopathology Partners, a Texas professional association, pursuant to services agreement between us and TCP. Pursuant to the agreement, we pay TCP a monthly fee on a per FNA basis, and TCP manages and supervises the pathologists who perform the cytopathology services as a component of the Afirma solution.

Federal and State Physician Self-Referral Prohibitions

We are subject to the federal physician self-referral prohibitions, commonly known as the Stark Law, and to similar restrictions under the self-referral prohibitions of certain states in which we operate, including California's Physician Ownership and Referral Act, or PORA. Together these restrictions generally prohibit us from billing a patient or any governmental or private payer for any diagnostic services when the physician ordering the service, or any member of such physician's immediate family, has an investment interest in or compensation arrangement with us, unless the arrangement meets an exception to the prohibition.

Both the Stark Law and PORA contain an exception for compensation paid to a physician for personal services rendered by the physician meeting certain contractual requirements. We have compensation arrangements with a number of physicians for personal services, such as speaking engagements and consulting activities. We have structured these arrangements with terms intended to comply with the requirements of the personal services exception to Stark and PORA.

However, we cannot be certain that regulators would find these arrangements to be in compliance with Stark, PORA or similar state laws. We would be required to refund any payments we receive pursuant to a referral prohibited by these laws to the patient, the payer or the Medicare program, as applicable.

Sanctions for a violation of the Stark Law include the following:

- denial of payment for the services provided in violation of the prohibition;
- refunds of amounts collected by an entity in violation of the Stark Law;
- a civil penalty of up to $15,000 for each service arising out of the prohibited referral;
- possible exclusion from federal healthcare programs, including Medicare and Medicaid; and
- a civil penalty of up to $100,000 against parties that enter into a scheme to circumvent the Stark Law's prohibition.

These prohibitions apply regardless of the reasons for the financial relationship and the referral. No finding of intent to violate the Stark Law is required for a violation. In addition, knowing violations of the Stark Law may also serve as the basis for liability under the Federal False Claims Act which prohibits knowingly presenting, or causing to be presented, a false, fictitious, or fraudulent claim for payment to the U.S. Government.

Further, a violation of PORA is a misdemeanor and could result in civil penalties and criminal fines. Finally, other states have self-referral restrictions with which we have to comply that differ from those imposed by federal and California law. While we have attempted to comply with the Stark Law, PORA and similar laws of other states, it is possible that some of our financial arrangements with physicians could be subject to regulatory scrutiny at some point in the future, and we cannot provide assurance that we will be found to be in compliance with these laws following any such regulatory review.

Federal and State Anti-Kickback Laws

The federal Anti-kickback Law makes it a felony for a person or entity, including a laboratory, to knowingly and willfully offer, pay, solicit or receive remuneration, directly or indirectly, in order to induce business that is reimbursable under any federal health care program. A violation of the Anti-kickback Law may result in imprisonment for up to five years and fines of up to $250,000 in the case of individuals and $500,000 in the case of organizations. Convictions under the Anti-kickback Law result in mandatory exclusion from federal health care programs for a minimum of five years. In addition, HHS has the authority to impose civil assessments and fines and to exclude health care providers and others engaged in prohibited activities from Medicare, Medicaid and other federal health care programs. Actions which violate the Anti-kickback Law also incur liability under the Federal False Claims Act, which prohibits knowingly presenting, or causing to be presented, a false, fictitious, or fraudulent claim for payment to the U.S. Government.

Although the Anti-kickback Law applies only to federal health care programs, a number of states, including California, have passed statutes substantially similar to the Anti-kickback Law pursuant to which similar types of prohibitions are made applicable to all other health plans and third- party payers. California's fee-splitting and Anti-kickback statute, Business and Professions Code Section 650, and its Medi-Cal Anti-kickback statute, Welfare and Institutions Code Section 14107.2, have been interpreted by the California Attorney General and California courts in substantially the same way as HHS and the courts have interpreted the Anti-kickback Law. A violation of Section 650 is punishable by imprisonment and fines of up to $50,000. A violation of Section 14107.2 is punishable by imprisonment and fines of up to $10,000.

Federal and state law enforcement authorities scrutinize arrangements between health care providers and potential referral sources to ensure that the arrangements are not designed as a mechanism to induce patient care referrals or induce the purchase or prescribing of particular products or services. The law enforcement authorities, the courts and Congress have also demonstrated a willingness to look behind the formalities of a transaction to determine the underlying purpose of payments between health care providers and actual or potential referral sources. Generally, courts have taken a broad interpretation of the scope of the Anti-kickback Law, holding that the statute may be violated if merely one purpose of a payment arrangement is to induce referrals or purchases.

The federal Anti-kickback Law includes statutory exceptions, and provides for a number of safe harbors. If an arrangement meets the provisions of a safe harbor, it is deemed not to violate the Anti-kickback Law. An arrangement must fully comply with each element of an applicable safe harbor in order to qualify for protection. Many state anti-kickback statutes have analogous exceptions or safe harbors to those of the federal Anti-kickback Law. These state anti-kickback statutes have generally been interpreted consistently with the Anti-kickback Law.

Among the safe harbors that may be relevant to us is the discount safe harbor. The discount safe harbor potentially applies to discounts provided by providers and suppliers, including laboratories, to physicians or institutions. If the terms of the discount safe harbor are met, the discounts will not be considered prohibited remuneration under the Anti-kickback Law. California does not have a discount safe harbor. However, as noted above, Section 650 has generally been interpreted consistent with the Anti-kickback Law.

The personal services safe harbor to the Anti-kickback Law provides that remuneration paid to a referral source for personal services will not violate the Anti-kickback Law provided all of the elements of that safe harbor are met. One element is that if the agreement is intended to provide for the services of the physician on a periodic, sporadic or part-time basis, rather than on a full-time basis for the term of the agreement, the agreement specifies exactly the schedule of such intervals, their precise length, and the exact charge for such intervals. Our personal services arrangements with some physicians may not meet the specific requirement of this safe harbor that the agreement specify exactly the schedule of the intervals of time to be spent on the services because the nature of the services, such as speaking engagements, does not lend itself to exact scheduling and therefore meeting this element

of the personal services safe harbor is impractical. Failure to meet the terms of the safe harbor does not render an arrangement illegal. Rather, the government may evaluate such arrangements on a case-by-case basis under the language of the statute, taking into account all facts and circumstances.

While we believe that we are in compliance with the Anti-kickback Law, Section 650, and Section 14107.2, there can be no assurance that our relationships with physicians, academic institutions and other customers will not be subject to investigation or challenge under such laws. If imposed for any reason, sanctions under the Anti-kickback Law, Section 650, or Section 14107.2 could have a negative effect on our business.

Other Federal and State Fraud and Abuse Laws

In addition to the requirements discussed above, several other health care fraud and abuse laws could have an effect on our business. For example, provisions of the Social Security Act permit Medicare and Medicaid to exclude an entity that charges the federal health care programs substantially in excess of its usual charges for its services. The terms "usual charge" and "substantially in excess" are ambiguous and subject to varying interpretations, though the Department of Health and Human Services' Office of the Inspector General has provided some guidance on the topic.

Further, the federal False Claims Act prohibits a person from knowingly submitting a claim, making a false record or statement in order to secure payment or retaining an overpayment by the federal government. In addition to actions initiated by the government itself, the statute authorizes actions to be brought on behalf of the federal government by a private party having knowledge of the alleged fraud. Because the complaint is initially filed under seal, the action may be pending for some time before the defendant is even aware of the action. If the government is ultimately successful in obtaining redress in the matter or if the plaintiff succeeds in obtaining redress without the government's involvement, then the plaintiff will receive a percentage of the recovery. Finally, the Social Security Act includes its own provisions that prohibit the filing of false claims or submitting false statements in order to obtain payment. Violation of these provisions may result in up to treble damages, substantial civil penalties, fines, imprisonment or combination of the above, and possible exclusion from Medicare or Medicaid programs. California has an analogous state false claims act applicable to all payers, as do many other states; however, we may not be aware of all such rules and statutes and cannot provide assurance that we will be in compliance with all such laws and regulations.

In general, in recent years U.S. Attorneys' Offices have increased scrutiny of the healthcare industry, as have Congress, the Department of Justice, the Department of Health and Human Services' Office of the Inspector General and the Department of Defense. These bodies have all issued subpoenas and other requests for information to conduct investigations of, and commenced civil and criminal litigation against, healthcare companies based on financial arrangements with health care providers, regulatory compliance, product promotional practices and documentation, and coding and billing practices. Whistleblowers have filed numerous qui tam lawsuits against healthcare companies under the federal and state False Claims Acts in recent years, in part because the whistleblower can receive a portion of the government's recovery under such suits.

In addition, under PAMA, laboratories are required to report to CMS the private payer payment rates and test volumes paid by private payers based on final payments made during a specific "data collection period." This data reporting requirement is triennial for most clinical diagnostic laboratory tests (annual for advanced diagnostic laboratory tests, or ADLTs), with the first data reporting period occurring in 2017 for final payments made in January through June 2016. When reporting data under PAMA, the President, CEO, or CFO of a reporting entity, or an individual who has been delegated authority to sign for, and who reports directly to, such an officer, must sign the certification statement and be responsible for assuring that the data provided are accurate, complete, and truthful, and meets all the required reporting parameters. Failure to report or misrepresentation or omission in reporting can result in civil penalties of up to $10,000 per day for each violation and other penalties. We believe we are in compliance with the PAMA reporting requirements, but there can be no assurance that our reporting practices will not be scrutinized under the PAMA regulations.

International

Many countries in which we may offer any of our tests in the future have anti-kickback regulations prohibiting providers from offering, paying, soliciting or receiving remuneration, directly or indirectly, in order to induce business that is reimbursable under any national health care program. In situations involving physicians employed by state-funded institutions or national health care agencies, violation of the local anti-kickback law may also constitute a violation of the United States Foreign Corrupt Practices Act, or FCPA.

The FCPA prohibits any U.S. individual, business entity or employee of a U.S. business entity to offer or provide, directly or through a third party, including any potential distributors we may rely on in certain markets, anything of value to a foreign government official with corrupt intent to influence an award or continuation of business or to gain an unfair advantage, whether

or not such conduct violates local laws. In addition, it is illegal for a company that reports to the SEC to have false or inaccurate books or records or to fail to maintain a system of internal accounting controls. We will also be required to maintain accurate information and control over sales and distributors' activities that may fall within the purview of the FCPA, its books and records provisions and its anti-bribery provisions.

The standard of intent and knowledge in the Anti-Bribery cases is minimal-intent and knowledge are usually inferred from that fact that bribery took place. The accounting provisions do not require intent. Violations of the FCPA's anti-bribery provisions for corporations and other business entities are subject to a fine of up to $2 million and officers, directors, stockholders, employees, and agents are subject to a fine of up to $100,000 and imprisonment for up to five years. Other countries, including the United Kingdom and other OECD Anti-Bribery Convention members, have similar anti-corruption regulations, such as the United Kingdom Anti-bribery Act.

When marketing our tests outside of the United States, we may be subject to foreign regulatory requirements governing human clinical testing, prohibitions on the import of tissue necessary for us to perform our tests or restrictions on the export of tissue imposed by countries outside of the United States or the import of tissue into the United States, and marketing approval. These requirements vary by jurisdiction, differ from those in the United States and may in some cases require us to perform additional pre-clinical or clinical testing. In many countries outside of the United States, coverage, pricing and reimbursement approvals are also required.

Patents and Proprietary Technology

In order to remain competitive, we must develop and maintain protection of the proprietary aspects of our technologies. To that end, we rely on a combination of patents, copyrights and trademarks, as well as contracts, such as confidentiality, invention assignment and licensing agreements. We also rely upon trade secret laws to protect unpatented know-how and continuing technological innovation. In addition, we have what we consider to be reasonable security measures in place to maintain confidentiality. Our intellectual property strategy is intended to develop and maintain our competitive position.

We have fifteen issued patents that expire between 2029 and 2032 related to methods used in the Afirma diagnostic platform, in addition to fourteen pending U.S. utility patent applications, one pending Patent Cooperation Treaty, or PCT, patent application, and two U.S. provisional patent applications. Some of these U.S. utility patent applications have pending foreign counterparts. We also exclusively licensed intellectual property, including rights to two issued patents that will expire between 2030 and 2032, and three pending U.S. utility patent applications in the thyroid space that would expire between 2030 and 2033 once issued, related to methods that are used in the Afirma diagnostic test, some of which have foreign counterparts.

In the lung diagnostic space, we have exclusively licensed intellectual property rights to thirteen pending patent applications and eight issued patents. Patents issuing from the licensed portfolio will expire between 2024 and 2028. In addition, we own two pending U.S. provisional applications, a pending U.S. utility patent application and pending foreign counterpart patent applications in Australia, Canada, China, Europe, Japan, and South Korea related to our Percepta test. We also own one U.S. patent application and one counterpart European patent application related to another lung disease, and two pending U.S. patent applications, five patent applications abroad, and one Patent Cooperation Treaty patent application related to Envisia. Any patents granted from our current lung cancer patent applications will expire no earlier than 2035 and those from the interstitial lung disease patent applications will expire no earlier than 2034.

We intend to file additional patent applications in the United States and abroad to strengthen our intellectual property rights; however, our patent applications (including the patent applications listed above) may not result in issued patents in a timely fashion or at all, and we cannot assure investors that any patents that have issued or might issue will protect our technology. We may receive notices of claims of potential infringement from third parties in the future.

We hold registered trademarks in the United States for "Veracyte," "Afirma," "Percepta," "Know By Design," the Afirma logo, and the current and former Veracyte logos, and we have a pending federal trademark application for "Envisia". We also hold registered trademarks in various jurisdictions outside of the United States.

We require all employees and technical consultants working for us to execute confidentiality agreements, which provide that all confidential information received by them during the course of the employment, consulting or business relationship be kept confidential, except in specified circumstances. Our agreements with our research employees provide that all inventions, discoveries and other types of intellectual property, whether or not patentable or copyrightable, conceived by the individual while he or she is employed by us are assigned to us. We cannot provide any assurance, however, that employees and consultants will abide by the confidentiality or assignment terms of these agreements. Despite measures taken to protect our intellectual property, unauthorized parties might copy aspects of our technology or obtain and use information that we regard as proprietary.

Research and Development Expenses

Research and development expenses were $13.9 million, $15.3 million and $12.8 million for the years ended December 31, 2017, 2016, and 2015, respectively.

Employees

At December 31, 2017, we had 246 employees, of which 47 work in laboratory operations, 33 in research and development and clinical development, 79 in selling and marketing, and 87 in general and administrative, including 57 in billing and client services, 11 in information technology and 12 in finance. None of our employees are the subject of collective bargaining arrangements, and our management considers its relationships with employees to be good.

Environmental Matters

Our operations require the use of hazardous materials (including biological materials) which subject us to a variety of federal, state and local environmental and safety laws and regulations. Some of these regulations provide for strict liability, holding a party potentially liable without regard to fault or negligence. We could be held liable for damages and fines as a result of our, or others', business operations should contamination of the environment or individual exposure to hazardous substances occur. We cannot predict how changes in laws or new regulations will affect our business, operations or the cost of compliance.

Raw Materials and Suppliers

We procure reagents, equipment, chips and other materials that we use to perform our tests from sole suppliers. We also purchase components used in our collection kits from sole-source suppliers. Some of these items are unique to these suppliers and vendors. In addition, we utilize a sole source to assemble and distribute our sample collection kits. While we have developed alternate sourcing strategies for these materials and vendors, we cannot be certain whether these strategies will be effective or the alternative sources will be available when we need them. If these suppliers can no longer provide us with the materials we need to perform the tests and for our collection kits, if the materials do not meet our quality specifications or are otherwise unusable, if we cannot obtain acceptable substitute materials, or if we elect to change suppliers, an interruption in test processing could occur, we may not be able to deliver patient reports and we may incur higher one-time switching costs. Any such interruption may significantly affect our future revenue, cause us to incur higher costs, and harm our customer relationships and reputation. In addition, in order to mitigate these risks, we maintain inventories of these supplies at higher levels than would be the case if multiple sources of supply were available. If our test volume decreases or we switch suppliers, we may hold excess inventory with expiration dates that occur before use which would adversely affect our losses and cash flow position. As we introduce any new test, we may experience supply issues as we ramp test volume.

Legal Proceedings

From time to time, we may be party to lawsuits in the ordinary course of business. We are currently not a party to any material legal proceedings.

ITEM 1A. RISK FACTORS

Risks Related to Our Business

We are an emerging growth company with a history of losses, and we expect to incur net losses for the foreseeable future and may never achieve or sustain profitability.

We have incurred net losses since our inception. For the year ended December 31, 2017, we had a net loss of $31.0 million and as of December 31, 2017, we had an accumulated deficit of $211.1 million. We expect to incur additional losses in the future, and we may never achieve revenue sufficient to offset our expenses. Over the next couple of years, we expect to continue to devote substantially all of our resources to increase adoption of, and reimbursement for our Afirma tests, Percepta, our lung cancer test which we launched in April 2015, Envisia, our test for idiopathic pulmonary fibrosis, or IPF, which we launched in October 2016, and the development of additional tests. We may never achieve or sustain profitability, and our failure to achieve and sustain profitability in the future could cause the market price of our common stock to decline.

Our financial results currently depend mainly on sales of our Afirma tests, and we will need to generate sufficient revenue from this and other diagnostic solutions to grow our business.

Most of our revenue to date has been derived from the sale of our Afirma tests, which are used in the diagnosis of thyroid cancer. Over the next few years, we expect to continue to derive a substantial portion of our revenue from sales of our Afirma tests. In the third quarter of 2017, we began recognizing revenue from the sale of our Percepta test, used in the diagnosis of lung cancer. However, revenue from Percepta has not been significant to date. We also launched our Envisia test to help improve the diagnosis of interstitial lung disease, specifically IPF, in October 2016, but have not recognized revenue from Envisia to-date. Once genomic tests are clinically validated and commercially available for patient testing, we must continue to develop and publish evidence that our tests are informing clinical decisions in order for them to receive positive coverage decisions by payers. Without coverage policies, our tests may not be reimbursed and we will not be able to recognize revenue. We cannot guarantee that tests we commercialize will gain and maintain positive coverage decisions and therefore, we may never realize revenue from tests we commercialize. In addition, we are in various stages of research and development for other diagnostic solutions that we may offer, but there can be no assurance that we will be able to identify other diseases that can be effectively addressed or, if we are able to identify such diseases, whether or when we will be able to successfully commercialize solutions for these diseases and obtain the evidence and coverage decisions from payers. If we are unable to increase sales and expand reimbursement for our Afirma and Percepta tests, or successfully obtain coverage and reimbursement for our Envisia test or develop and commercialize other solutions, our revenue and our ability to achieve and sustain profitability would be impaired, and the market price of our common stock could decline.

If we are not able to successfully transition to our next-generation Afirma GSC, our business, operating results and competitive position could be harmed.

We are in the process of transitioning our customers to our next-generation Afirma Genomic Sequencing Classifier, or GSC, that uses a new technology platform for the Afirma genomic classifier testing. There are risks associated with this transition that include, but are not limited to, operational implementation, reimbursement, and customer adoption risks. If we are unable to effectively transition to the new platform, our business, financial condition and results of operations could be adversely effected and our reputation and competitive position could be harmed.

We depend on a few payers for a significant portion of our revenue and if one or more significant payers stops providing reimbursement or decreases the amount of reimbursement for our tests, our revenue could decline.

Revenue for tests performed on patients covered by Medicare and UnitedHealthcare was 26% and 14%, respectively, of our revenue for the year ended December 31, 2017, compared with 27% and 12%, respectively, for the year ended December 31, 2016. The percentage of our revenue derived from significant payers is expected to fluctuate from period to period as our revenue fluctuates, as additional payers provide reimbursement for our tests or if one or more payers were to stop reimbursing for our tests or change their reimbursed amounts. Effective January 2012, Palmetto GBA, the regional Medicare Administrative Contractor, or MAC, that handled claims processing for Medicare services over our jurisdiction at that time, issued coverage and payment determinations for the Afirma Gene Expression Classifier, or GEC. Afirma GSC is now covered by Noridian Healthcare Solutions, the current MAC for our jurisdiction, through the Molecular Diagnostics Services Program, or MolDX program, administered by Palmetto GBA, under a Local Coverage Determination, or LCD.

Noridian Healthcare Solutions issued an LCD for Percepta effective as of May 2017. This coverage policy requires us to maintain a Certification and Training Registry program and make Percepta available only to patients through physicians who participate in this program. Failure by Veracyte or physicians to comply with the requirements of the Certification and Training Registry program could lead to loss of Medicare coverage for Percepta, which could have an adverse effect on our revenue.

We have submitted the dossier of clinical evidence needed to obtain Medicare coverage for the Envisia Genomic Classifier through the MolDX technical assessment process, but there can be no assurances that Envisia will obtain Medicare coverage in 2018 or in subsequent years.

On a five-year rotational basis, Medicare requests bids for its regional MAC services. Any future changes in the MAC processing or coding for Medicare claims for the Afirma classifier or Percepta could result in a change in the coverage or reimbursement rates for such products, or the loss of coverage, and could also result in increased difficulties in obtaining and maintaining coverage for the Envisia classifier.

On March 1, 2015, an American Medical Association Current Procedural Terminology code, or CPT code, 81545 for the Afirma GEC was issued. On January 1, 2018, the Medicare Clinical Laboratory Fee Schedule payment rate for the Afirma classifier increased from $3,220 to $3,600. This rate is based on the volume-weighted median of private payer rates based on final payments made between January 1 and June 30, 2016, which we reported to CMS in 2017 as required under the Protecting Access to Medicare Act of 2014, or PAMA. This payment rate will be effective through December 31, 2020. There can be no assurance that the rate will not decrease in the future following the next reporting period under PAMA.

We submit claims to Medicare for Percepta using an unlisted code and were paid at the rate of $3,220 in 2017 under the MolDX program. A specific CPT code assigned to Percepta may be required to go through the national payment determination process, and there can be no assurance that the Medicare payment rate the test receives through this process will not be lower than the current payment rate for Percepta. There can also be no assurance that the Medicare payment rate for Percepta will not be reduced when it is set based on volume-weighted median of private payer rates after the next reporting period under PAMA.

If there is a decrease in the Medicare payment rate for our tests, our revenue from Medicare will decrease and the payment rates for some of our commercial payers may also decrease if they tie their allowable rates to the Medicare rate. These changes could have an adverse effect on our business, financial condition and results of operations.

Although we have entered into contracts with certain third-party payers that establish in-network allowable rates of reimbursement for our Afirma tests, payers may suspend or discontinue reimbursement at any time, may require or increase co-payments from patients, or may reduce the reimbursement rates paid to us. Reductions in private payer amounts could decrease the Medicare payment rates for our tests under PAMA. Any such actions could have a negative effect on our revenue.

If payers do not provide reimbursement, rescind or modify their reimbursement policies, delay payments for our tests, recoup past payments, or if we are unable to successfully negotiate additional reimbursement contracts, our commercial success could be compromised.

Physicians might not order our tests unless payers reimburse a substantial portion of the test price. There is significant uncertainty concerning third-party reimbursement of any test incorporating new technology, including our tests. Reimbursement by a payer may depend on a number of factors, including a payer's determination that these tests are:

- not experimental or investigational;
- pre-authorized and appropriate for the specific patient;
- cost-effective;
- supported by peer-reviewed publications; and
- included in clinical practice guidelines.

Since each payer makes its own decision as to whether to establish a coverage policy or enter into a contract to reimburse our tests, seeking these approvals is a time-consuming and costly process.

We do not have a contracted rate of reimbursement with many payers for the Afirma or Percepta tests, and we do not have any contracted reimbursement with any payers with respect to the Envisia test. Without a contracted rate for reimbursement, our claims are often denied upon submission, and we must appeal the claims. The appeals process is time consuming and expensive, and may not result in payment. In cases where there is no contracted rate for reimbursement, there is typically a greater patient co-insurance or co-payment requirement which may result in further delay or decreased likelihood of collection. Payers may attempt to recoup prior payments after review, sometimes after significant time has passed, which would impact future revenue.

We expect to continue to focus substantial resources on increasing adoption, coverage and reimbursement for the Afirma classifiers, the Percepta classifier and the Envisia classifier as well as any other future tests we may develop. We believe it will take several years to achieve coverage and contracted reimbursement with a majority of third-party payers. However, we cannot predict whether, under what circumstances, or at what payment levels payers will reimburse for our tests. Also, payer consolidation is underway and creates uncertainty as to whether coverage and contracts with existing payers will remain in effect. Finally, if there is a decrease in the Medicare payment rate for our tests, the payment rates for some of our commercial payers may also decrease if they tie their allowable rates to the Medicare rate. Reductions in private payer amounts could decrease the Medicare payment rates for our tests under PAMA. Our failure to establish broad adoption of and reimbursement for our tests, or our inability to maintain existing reimbursement from payers, will negatively impact our ability to generate revenue and achieve profitability, as well as our future prospects and our business.

We may experience limits on our revenue if physicians decide not to order our tests.

If we are unable to create or maintain demand for our tests in sufficient volume, we may not become profitable. To generate demand, we will need to continue to educate physicians about the benefits and cost-effectiveness of our tests through published papers, presentations at scientific conferences, marketing campaigns and one-on-one education by our sales force. In addition, our ability to obtain and maintain adequate reimbursement from third-party payers will be critical to generating revenue.

The Afirma genomic classifier is included in most physician practice guidelines in the United States for the assessment of patients with thyroid nodules. However, historical practice recommended a full or partial thyroidectomy in cases where cytopathology results were indeterminate to confirm a diagnosis. Our lung products are not yet integrated into practice guidelines and physicians may be reluctant to order tests that are not recommended in these guidelines. Because our diagnostic services are performed by our certified laboratory under the Clinical Laboratory Improvement Amendments of 1988, or CLIA, rather than by the local laboratory or pathology practice, pathologists may be reluctant to support our testing services as well. Guidelines that include our classifiers currently may subsequently be revised to recommend another testing protocol, and these changes may result in physicians deciding not to use our tests. Lack of guideline inclusion could limit the adoption of our tests and our ability to generate revenue and achieve profitability. To the extent international markets have existing practices and standards of care that are different than those in the United States, we may face challenges with the adoption of our tests in international markets.

We may experience limits on our revenue if patients decide not to use our tests.

Some patients may decide not to use our tests because of price, all or part of which may be payable directly by the patient if the patient's insurer denies reimbursement in full or in part. There is a growing trend among insurers to shift more of the cost of healthcare to patients in the form of higher co-payments or premiums, and this trend is accelerating which puts patients in the position of having to pay more for our tests. We expect to continue to see pressure from payers to limit the utilization of tests, generally, and we believe more payers are deploying costs containment tactics, such as pre-authorization and employing laboratory benefit managers to reduce utilization rates. Implementation of provisions of the Patient Protection and Affordable Care Act, as amended by the Health Care and Education Affordability Reconciliation Act, collectively the ACA, has also resulted in increases in premiums and reductions in coverage for some patients. In addition, Congressional efforts to repeal the ACA could result in an increase in uninsured patients. These events may result in patients delaying or forgoing medical checkups or treatment due to their inability to pay for our tests, which could have an adverse effect on our revenue.

Due to how we recognize revenue, our quarterly operating results are likely to fluctuate.

For tests performed where we have an agreed upon reimbursement rate or we are able to reasonably estimate the amount that will ultimately be realized at the time delivery of a patient report is complete, such as in the case of Medicare and certain other payers, we recognize the related revenue upon delivery of the patient report to the prescribing physician based on the amount we expect to ultimately realize. We determine the amount we expect to ultimately realize based on payer reimbursement history, contracts, and coverage. In the first period in which revenue is accrued for a particular payer, a one-time increase in revenue generally occurs. Upon ultimate collection, the amount received where reimbursement was estimated is compared to previous estimates and the amount accrued is adjusted accordingly. In situations where we cannot reasonably estimate the amount that will ultimately be collected, we recognize revenue on the cash basis. We cannot be certain as to when we will receive payment for our diagnostic tests, and we must appeal negative payment decisions, which delays collections. Should judgments underlying estimated reimbursement change, or were incorrect at the time we accrued such revenue, our financial results could be negatively impacted in future quarters. As a result, comparing our operating results on a period-to-period basis may not be meaningful. You should not rely on our past results as an indication of our future performance. In addition, these fluctuations in revenue may make it difficult for us, for research analysts and for investors to accurately forecast our revenue and operating results. If our revenue or operating results fall below expectations, the price of our common stock would likely decline.

We rely on sole suppliers for some of the reagents, equipment, chips and other materials used to perform our tests, and we may not be able to find replacements or transition to alternative suppliers.

We rely on sole suppliers for critical supply of reagents, equipment, chips and other materials that we use to perform our tests. We also purchase components used in our collection kits from sole-source suppliers. Some of these items are unique to these suppliers and vendors. In addition, we utilize a sole source to assemble and distribute our sample collection kits. While we have developed alternate sourcing strategies for these materials and vendors, we cannot be certain whether these strategies will be effective or the alternative sources will be available when we need them. If these suppliers can no longer provide us with the materials we need to perform the tests and for our collection kits, if the materials do not meet our quality specifications or are otherwise unusable, if we cannot obtain acceptable substitute materials, or if we elect to change suppliers, an interruption in test processing could occur, we may not be able to deliver patient reports and we may incur higher one-time switching costs. Any such interruption may significantly affect our future revenue, cause us to incur higher costs, and harm our customer relationships and reputation. In addition, in order to mitigate these risks, we maintain inventories of these supplies at higher levels than would be the case if multiple sources of supply were available. If our test volume decreases or we switch suppliers, we may hold excess inventory with expiration dates that occur before use which would adversely affect our losses and cash flow position. As we introduce any new test, we may experience supply issues as we ramp test volume.

We depend on a specialized cytopathology practice to perform the cytopathology component of our Afirma test, and our ability to perform our diagnostic solution would be harmed if we were required to secure a replacement.

We rely on TCP to provide cytopathology professional diagnoses on thyroid fine needle aspiration, or FNA, samples pursuant to a pathology services agreement. Pursuant to this agreement, TCP has the exclusive right to provide the cytopathology diagnoses on FNA samples at a fixed price per test. We have also agreed to allow TCP to co-locate in a portion of our facilities in Austin, Texas. Our agreement with TCP is effective through October 31, 2022, and thereafter automatically renews every year unless either party provides notice of intent not to renew at least 12 months prior to the end of the then-current term.

If TCP were not able to support our current test volume or future increases in test volume or to provide the quality of services we require, or if we were unable to agree on commercial terms and our relationship with TCP were to terminate, our business would be harmed until we were able to secure the services of another cytopathology provider. There can be no assurance that we would be successful in finding a replacement that would be able to conduct cytopathology diagnoses at the same volume or with the same high-quality results as TCP. Locating another suitable cytopathology provider could be time consuming and would result in delays in processing Afirma tests until a replacement was fully integrated with our test processing operations.

We may be unable to manage our future growth effectively, which could make it difficult to execute our business strategy.

In addition to the need to scale our testing capacity, future growth, including our transition to a multi-product company with international operations, will impose significant added responsibilities on management, including the need to identify, recruit, train and integrate additional employees with the necessary skills to support the growing complexities of our business. Rapid and

significant growth may place strain on our administrative, financial and operational infrastructure. Our ability to manage our business and growth will require us to continue to improve our operational, financial and management controls, reporting systems and procedures. We have implemented an internally-developed data warehouse, which is critical to our ability to track our diagnostic services and patient reports delivered to physicians, as well as to support our financial reporting systems. The time and resources required to optimize these systems is uncertain, and failure to complete optimization in a timely and efficient manner could adversely affect our operations. If we are unable to manage our growth effectively, it may be difficult for us to execute our business strategy and our business could be harmed.

If we are unable to support demand for our commercial tests, our business could suffer.

As demand for our tests grows, we will need to continue to scale our testing capacity and processing technology, expand customer service, billing and systems processes and enhance our internal quality assurance program. We will also need additional certified laboratory scientists and other scientific and technical personnel to process higher volumes of our tests. We cannot assure you that any increases in scale, related improvements and quality assurance will be successfully implemented or that appropriate personnel will be available. Failure to implement necessary procedures, transition to new processes or hire the necessary personnel could result in higher costs of processing tests, quality control issues or inability to meet demand. There can be no assurance that we will be able to perform our testing on a timely basis at a level consistent with demand, or that our efforts to scale our operations will not negatively affect the quality of test results. If we encounter difficulty meeting market demand or quality standards, our reputation could be harmed and our future prospects and our business could suffer.

Changes in healthcare policy, including legislation reforming the U.S. healthcare system, may have a material adverse effect on our financial condition and operations.

The ACA, enacted in March 2010, made changes that significantly affected the pharmaceutical and medical device industries and clinical laboratories. Effective January 1, 2013, the ACA included a 2.3% excise tax on the sale of certain medical devices sold outside of the retail setting. Although a moratorium has been imposed on this excise tax for 2016 through 2019, the excise tax is scheduled to be restored in 2020.

Other significant measures contained in the ACA include, for example, coordination and promotion of research on comparative clinical effectiveness of different technologies and procedures, initiatives to revise Medicare payment methodologies, such as bundling of payments across the continuum of care by providers and physicians, and initiatives to promote quality indicators in payment methodologies. The ACA also includes significant new fraud and abuse measures, including required disclosures of financial arrangements with physician customers, lower thresholds for violations and increasing potential penalties for such violations. In addition, the ACA establishes an Independent Payment Advisory Board, or IPAB, to reduce the per capita rate of growth in Medicare spending. The IPAB has broad discretion to propose policies to reduce expenditures, which may have a negative effect on payment rates for services. The IPAB proposals could have affected payments for clinical laboratory services beginning in 2016 and may affect those for hospital services beginning in 2020. We are monitoring the effect of the ACA to determine the trends and changes that may be necessitated by the legislation, any of which may potentially affect our business.

In the beginning of 2017, the U.S. Congress and the Administration took actions to repeal the ACA and indicated an intent to replace it with another act and efforts to repeal or amend the ACA are ongoing. We cannot predict if, or when, the ACA will be repealed or amended, and cannot predict the impact that an amendment or repeal of the ACA will have on our business.

In addition to the ACA, various healthcare reform proposals have also periodically emerged from federal and state governments. For example, in February 2012, Congress passed the Middle Class Tax Relief and Job Creation Act of 2012, which in part reset the clinical laboratory payment rates on the Medicare Clinical Laboratory Fee Schedule, or CLFS, by 2% in 2013. In addition, under the Budget Control Act of 2011, which is effective for dates of service on or after April 1, 2013, Medicare payments, including payments to clinical laboratories, are subject to a reduction of 2% due to the automatic expense reductions (sequester) until fiscal year 2024. Reductions resulting from the Congressional sequester are applied to total claims payment made; however, they do not currently result in a rebasing of the negotiated or established Medicare or Medicaid reimbursement rates.

State legislation on reimbursement applies to Medicaid reimbursement and managed Medicaid reimbursement rates within that state. Some states have passed or proposed legislation that would revise reimbursement methodology for clinical laboratory payment rates under those Medicaid programs. For example, effective July 2015, California’s Department of Health Care Services implemented a new rate methodology for clinical laboratories and laboratory services. This methodology involves the use of a

range of rates that fell between zero and 80% of the calculated California Medicare rate and the calculation of a weighted average (based on units billed) of such rates.

We cannot predict whether future healthcare initiatives will be implemented at the federal or state level or in countries outside of the United States in which we may do business, or the effect any future legislation or regulation will have on us. The taxes imposed by the new federal legislation, cost reduction measures and the expansion in the role of the U.S. government in the healthcare industry may result in decreased revenue, lower reimbursement by payers for our tests or reduced medical procedure volumes, all of which may adversely affect our business, financial condition and results of operations. In addition, sales of our tests outside the United States subject our business to foreign regulatory requirements and cost-reduction measures, which may also change over time.

Ongoing calls for deficit reduction at the federal government level and reforms to programs such as the Medicare program to pay for such reductions may affect the pharmaceutical, medical device and clinical laboratory industries. Currently, clinical laboratory services are excluded from the Medicare Part B co-insurance and co-payment as preventative services. Any requirement for clinical laboratories to collect co-payments from patients may increase our costs and reduce the amount ultimately collected.

CMS bundles payments for clinical laboratory diagnostic tests together with other services performed during hospital outpatient visits under the Hospital Outpatient Prospective Payment System. CMS currently maintains an exemption for molecular pathology tests from this bundling provision. It is possible that this exemption could be removed by CMS in future rule making, which might result in lower reimbursement for tests performed in this setting.

PAMA includes a substantial new payment system for clinical laboratory tests under the CLFS. Under PAMA, laboratories that receive the majority of their Medicare revenues from payments made under the CLFS and the Physician Fee Schedule would report on triennial bases (or annually for advanced diagnostic laboratory tests, or ADLTs), private payer rates and volumes for their tests with specific CPT codes based final payments made during a set data collection period (the first of which was January 1 through June 30, 2016). We believe that PAMA and its implementing regulations are generally favorable to us. We reported to CMS the data required under PAMA before the March 31, 2017 deadline. The new payment rate for the Afirma genomic classifier based on the volume-weighted median of private payer rates took effect January 1, 2018, increasing from $3,220 to $3,600 through December 31, 2020. There can be no assurance that the payment rate for Afirma will not decrease in the future or that the payment rates for Percepta or Envisia will not be adversely affected by the PAMA law and regulations.

We believe our Afirma genomic classifier as well as our Percepta and Envisia classifiers would be considered ADLTs under PAMA. The initial payment rate (for a period not to exceed nine months) under PAMA for a new ADLT (an ADLT for which payment has not been made under the CLFS prior to January 1, 2018) will be set at the “actual list charge” for the test as reported by the laboratory. Insofar as the actual list charge substantially exceeds private payer rates (by more than 30%), CMS will have the ability to recoup excess payments made during the initial nine-month payment period. We can determine whether to seek ADLT status for our tests, but there can be no assurance that our tests will be designated ADLTs or that the payment rates for our tests will not be adversely affected by such designation.

There have also been recent and substantial changes to the payment structure for physicians, including those passed as part of the Medicare Access and CHIP Reauthorization Act of 2015, or MACRA, which was signed into law on April 16, 2015. MACRA created the Merit-Based Incentive Payment System which, beginning in 2019, more closely aligns physician payments with composite performance on performance metrics similar to three existing incentive programs (i.e., the Physician Quality Reporting System, the Value-based modifier program and the Electronic Health Record Meaningful Use program) and incentivizes physicians to enroll in alternative payment methods. At this time, we do not know whether these changes to the physician payment systems will have any impact on orders or payments for our tests.

In December 2016, Congress passed the 21st Century Cures Act, which, among other things, revised the process for LCDs. CMS and the MACs are in the process of implementing these revisions and we cannot predict whether these revisions will delay coverage for our test products, which could have a material negative impact on revenue.

Because of Medicare billing rules, we may not receive reimbursement for all tests provided to Medicare patients.

Under previous Medicare billing rules, hospitals were required to bill for our tests when performed on Medicare beneficiaries who were hospital outpatients at the time of tissue specimen collection when these tests were ordered less than 14 days following the date of the patient's discharge.

Effective January 1, 2018, CMS revised its billing rules to allow the performing laboratory to bill Medicare directly for molecular pathology tests performed on specimens collected from hospital outpatients, even when those tests are ordered less than 14 days after the date of discharge. Our Afirma, Percepta, and Envisia classifiers should be covered by this policy. Accordingly, we would no longer bill hospitals for these tests when we perform them on specimens collected from hospital outpatients.

This change does not apply to tests performed on specimens collected from hospital inpatients. We will continue to bill hospitals for tests performed on specimens collected from hospital inpatients when the test was ordered less than 14 days after the date of discharge. While we believe the impact of these revisions are favorable to us, we cannot predict with certainty the impact on our business. CMS may change this regulatory policy in the future, which could negatively impact our business.

If the FDA were to begin regulating our tests, we could incur substantial costs and delays associated with trying to obtain premarket clearance or approval.

Clinical laboratory tests have long been subject to comprehensive regulations under CLIA, as well as by applicable state laws. Most laboratory developed tests, or LDTs, are not currently subject to regulation under the FDA's enforcement discretion policy, although reagents, instruments, software or components provided by third parties and used to perform LDTs may be subject to regulation. While the FDA maintains its authority to regulate LDTs, it has chosen to exercise its enforcement discretion not to enforce the premarket review and other applicable medical device requirements for LDTs. We believe that the Afirma, Percepta and Envisia classifiers are LDTs that fall under the FDA's enforcement discretion policy. In October 2014, the FDA issued draft guidance, entitled "Framework for Regulatory Oversight of LDTs," proposing a risk-based framework of oversight and a phased-in enforcement of premarket review requirements for most LDTs. In 2016, the FDA announced that it would not be finalizing the guidance.

In January 2017, the FDA issued a "Discussion Paper on Laboratory Developed Tests" following input it received from multiple stakeholders who had commented on its 2014 draft guidance. The FDA specifically states in its Discussion Paper that the proposals contained in the document do not represent a final version of the LDT draft guidance documents and are only designed to provide a possible approach to spark further dialogue. The suggested LDT framework could grandfather many types of LDTs without requiring new premarket review or quality management requirements. It also suggests a four-year phased implementation of the premarket review requirements for some types of tests.

In March 2017, a draft bill titled "The Diagnostics Accuracy and Innovation Act" was released for discussion. The bill proposes a risk-based approach to regulate LDTs and creates a new in vitro clinical test category, which includes LDTs, and a regulatory structure under the FDA. As proposed, the bill grandfathers existing tests and gives companies five years to augment test development pipelines to ensure new tests have the data necessary for FDA approval. We cannot predict whether this draft bill will become legislation and cannot quantify the effect of this draft bill on our business.

If the FDA were to require us to seek clearance or approval for our existing tests or any of our future products for clinical use, we may not be able to obtain such approvals on a timely basis, or at all. While we believe our current tests would likely qualify for the “grandfathered” tests treatment, there can be no assurance of what the FDA might ultimately require if it issued final guidance. If premarket reviews were required, our business could be negatively impacted if we were required to stop selling our products pending their clearance or approval. In addition, the launch of any new products that we develop could be delayed by the implementation of future FDA guidance. The cost of complying with premarket review requirements, including obtaining clinical data, could be significant. In addition, future regulation by the FDA could subject our business to further regulatory risks and costs. Failure to comply with applicable regulatory requirements of the FDA could result in enforcement action, including receiving untitled or warning letters, fines, injunctions, or civil or criminal penalties. Any such enforcement action would have a material adverse effect on our business, financial condition and operations. In addition, our sample collection containers are listed as Class I devices with the FDA. If the FDA were to determine that they are not Class I devices, we would be required to file 510(k) applications and obtain FDA clearance to use the containers, which could be time consuming and expensive.

Some of the materials we use for our tests and that we may use for future tests are labeled for research use only, or RUO, or investigational use only, or IUO. In November 2013, the FDA finalized guidance regarding the sale and use of products labeled RUO or IUO. Among other things, the guidance advises that the FDA continues to be concerned about distribution of research or investigational-use only products intended for clinical diagnostic use and that the manufacturer’s objective intent for the product’s intended use will be determined by examining the totality of circumstances, including advertising, instructions for clinical interpretation, presentations that describe clinical use, and specialized technical support, surrounding the distribution of the product

in question. The FDA has advised that if evidence demonstrates that a product is inappropriately labeled for research or investigational-use only, the device would be considered misbranded and adulterated within the meaning of the Federal Food, Drug and Cosmetic Act. Some of the reagents, instruments, software or components obtained by us from suppliers for use in our products are currently labeled as RUO or IUO. If the FDA were to determine that any of these reagents, instruments, software or components are improperly labeled RUO or IUO and undertake enforcement actions, some of our suppliers might cease selling these reagents, instruments, software or components to us, and any failure to obtain an acceptable substitute could significantly and adversely affect our business, financial condition and results of operations, including increasing the cost of testing or delaying, limiting or prohibiting the purchase of reagents, instruments, software or components necessary to perform testing.

If we are unable to compete successfully, we may be unable to increase or sustain our revenue or achieve profitability.

Our principal competition for our tests comes from traditional methods used by physicians to diagnose and manage patient care decisions. For example, with our Afirma genomic classifier, practice guidelines in the United States have historically recommended that patients with indeterminate diagnoses from cytopathology results be considered for surgery to remove all or part of the thyroid to rule out cancer. This practice has been the standard of care in the United States for many years, and we need to continue to educate physicians about the benefits of the Afirma genomic classifier to change clinical practice.

We also face competition from companies and academic institutions that use next generation sequencing technology or other methods to measure mutational markers such as BRAF and KRAS, along with numerous other mutations. These organizations include Interpace Diagnostics Group, Inc., CBLPath, Inc./University of Pittsburgh Medical Center, Rosetta Genomics Ltd., and others who are developing new products or technologies that may compete with our tests. In the future, we may also face competition from companies developing new products or technologies.

With the Percepta and Envisia tests, we believe our primary competition will similarly come from traditional methods used by physicians to diagnose the related diseases. For the Percepta test, we expect competition from companies focused on lung cancer such as Integrated Diagnostics, Inc., Oncocyte Corporation and Oncimmune. We also anticipate facing potential competition from companies offering or developing approaches for assessing malignancy risk in patients with lung nodules using alternative samples, such as blood, urine or sputum. However, such “liquid biopsies” are often used earlier in the diagnostic paradigm — for instance, to screen for cancer — or to gauge risk of recurrence or response to treatment.

In general, we also face competition from commercial laboratories, such as Laboratory Corporation of America Holdings and Sonic Healthcare USA, with strong infrastructure to support the commercialization of diagnostic services. We face potential competition from companies such as Illumina, Inc. and Thermo Fisher Scientific Inc., both of which have entered the clinical diagnostics market. Other potential competitors include companies that develop diagnostic products, such as Roche Diagnostics, a division of Roche Holding Ltd, Siemens AG and Qiagen N.V.

In addition, competitors may develop their own versions of our solutions in countries we may seek to enter where we do not have patents or where our intellectual property rights are not recognized and compete with us in those countries, including encouraging the use of their solutions by physicians in other countries.

To compete successfully, we must be able to demonstrate, among other things, that our diagnostic test results are accurate and cost effective, and we must secure a meaningful level of reimbursement for our products.

Many of our potential competitors have widespread brand recognition and substantially greater financial, technical and research and development resources, and selling and marketing capabilities than we do. Others may develop products with prices lower than ours that could be viewed by physicians and payers as functionally equivalent to our solutions, or offer solutions at prices designed to promote market penetration, which could force us to lower the list price of our solutions and affect our ability to achieve profitability. If we are unable to change clinical practice in a meaningful way or compete successfully against current and future competitors, we may be unable to increase market acceptance and sales of our products, which could prevent us from increasing our revenue or achieving profitability and could cause the market price of our common stock to decline. As we add new tests and services, we will face many of these same competitive risks for these new tests.

The loss of members of our senior management team or our inability to attract and retain key personnel could adversely affect our business.

Our success depends largely on the skills, experience and performance of key members of our executive management team and others in key management positions. The efforts of each of these persons together will be critical to us as we continue to develop our technologies and test processes and focus on our growth. If we were to lose one or more of these key employees, we may experience difficulties in competing effectively, developing our technologies and implementing our business strategy.

In addition, our research and development programs and commercial laboratory operations depend on our ability to attract and retain highly skilled scientists. We may not be able to attract or retain qualified scientists and technicians in the future due to the intense competition for qualified personnel among life science businesses, particularly in the San Francisco Bay Area. Our success in the development and commercialization of advanced diagnostics requires a significant medical and clinical staff to conduct studies and educate physicians and payers on the merits of our tests in order to achieve adoption and reimbursement. We are in a highly competitive industry to attract and retain this talent. As a public company located in the San Francisco Bay Area, we also face intense competition for highly skilled finance and accounting personnel. If we are unable to attract and retain finance and accounting personnel experienced in public company financial reporting, we risk being unable to close our books and file our public documents on a timely basis. Additionally, our success depends on our ability to attract and retain qualified sales people. We recently significantly expanded our sales force as we transitioned out of our Genzyme Corporation co-promotion agreement in the United States. There can be no assurance that we will be successful in maintaining and growing our business. Additionally, as we increase our sales channels for new tests we commercialize, including the Percepta and Envisia tests, we may have difficulties recruiting and training additional sales personnel or retaining qualified salespeople, which could cause a delay or decline in the rate of adoption of our tests. Finally, our business requires specialized capabilities in reimbursement, billing, and other areas and there may be a shortage of qualified individuals. If we are not able to attract and retain the necessary personnel to accomplish our business objectives, we may experience constraints that could adversely affect our ability to support our research and development, clinical laboratory, sales and reimbursement, billing and finance efforts. All of our employees are at will, which means that either we or the employee may terminate their employment at any time. We do not carry key man insurance for any of our employees.

Billing for our diagnostic tests is complex, and we must dedicate substantial time and resources to the billing process to be paid.

Billing for clinical laboratory testing services is complex, time-consuming and expensive. Depending on the billing arrangement and applicable law, we bill various payers, including Medicare, insurance companies and patients, all of which have different billing requirements. We generally bill third-party payers for our diagnostic tests and pursue reimbursement on a case-by-case basis where pricing contracts are not in place. To the extent laws or contracts require us to bill patient co-payments or co-insurance, we must also comply with these requirements. We may also face increased risk in our collection efforts, including potential write-offs of doubtful accounts and long collection cycles, which could adversely affect our business, results of operations and financial condition.

Several factors make the billing process complex, including:

- differences between the list price for our tests and the reimbursement rates of payers;
- compliance with complex federal and state regulations related to billing Medicare;
- risk of government audits related to billing Medicare;
- disputes among payers as to which party is responsible for payment;
- differences in coverage and in information and billing requirements among payers, including the need for prior authorization and/or advanced notification;
- the effect of patient co-payments or co-insurance;
- changes to billing codes used for our tests;
- incorrect or missing billing information; and
- the resources required to manage the billing and claims appeals process.

We use standard industry billing codes, known as CPT codes, to bill for cytopathology. In addition, we use the CPT code 81545 to bill for our Afirma classifier. CPT codes do not exist for our other proprietary molecular diagnostic tests. Therefore, until such time that we are assigned and are able to use a designated CPT code specific to Percepta and Envisia, we use "unlisted" codes for claim submissions. These codes can change over time. When codes change, there is a risk of an error being made in the claim adjudication process. These errors can occur with claims submission, third-party transmission or in the processing of the claim by the payer. Claim adjudication errors may result in a delay in payment processing or a reduction in the amount of the payment received. Coding changes, therefore, may have an adverse effect on our revenues. Even when we receive a designated CPT code specific to our tests, such as the 81545 code for the Afirma GEC that became effective January 1, 2016, there can be no assurance that payers will recognize these codes in a timely manner or that the process of transitioning to such a code and updating their billing systems and ours will not result in errors, delays in payments and a related increase in accounts receivable balances.

As we introduce new tests, we will need to add new codes to our billing process as well as our financial reporting systems. Failure or delays in effecting these changes in external billing and internal systems and processes could negatively affect our collection rates, revenue and cost of collecting.

Additionally, our billing activities require us to implement compliance procedures and oversight, train and monitor our employees, challenge coverage and payment denials, assist patients in appealing claims, and undertake internal audits to evaluate compliance with applicable laws and regulations as well as internal compliance policies and procedures. Payers also conduct external audits to evaluate payments, which add further complexity to the billing process. If the payer makes an overpayment determination, there is a risk that we may be required to return some portion of prior payments we have received. These billing complexities, and the related uncertainty in obtaining payment for our tests, could negatively affect our revenue and cash flow, our ability to achieve profitability, and the consistency and comparability of our results of operations.

We rely on a third-party provider to transmit claims to payers, and any delay in transmitting claims could have an adverse effect on our revenue.

While we manage the overall processing of claims, we rely on a third-party provider to transmit the actual claims to payers based on the specific payer billing format. We have previously experienced delays in claims processing when our third-party provider made changes to its invoicing system, and again when it did not submit claims to payers within the timeframe we require. Additionally, coding for diagnostic tests may change, and such changes may cause short-term billing errors that may take significant time to resolve. If claims are not submitted to payers on a timely basis or are erroneously submitted, or if we are required to switch to a different provider to handle claim submissions, we may experience delays in our ability to process these claims and receipt of payments from payers, or possibly denial of claims for lack of timely submission, which would have an adverse effect on our revenue and our business.

Our future success will depend in part on our ability to successfully transition from our relationship with Genzyme to co-promote Afirma in the United States.

We sell Afirma in the United States through our internal sales team and, until recently, also through a co-promotion agreement with Genzyme Corporation, which we terminated effective September 9, 2016. In connection with the transition, we have hired additional sales personnel to sell our Afirma tests. If we are unsuccessful in transitioning the sales and marketing of the Afirma test from Genzyme solely to our internal sales and marketing personnel, we may experience declining test volumes and associated declines in revenue. We may not be able to market or sell the Afirma test effectively enough to maintain or increase demand for the test, or without significant additional sales and marketing efforts and expense. Our failure to do so successfully without the benefit of Genzyme's efforts could have an adverse effect on our business, financial condition and results of operations.

If our internal sales force is less successful than anticipated, our business expansion plans could suffer and our ability to generate revenues could be diminished. In addition, we have limited history selling our molecular diagnostics tests on a direct basis and our limited history makes forecasting difficult.

If our internal sales force is not successful, or new additions to our sales team fail to gain traction among our customers, we may not be able to increase market awareness and sales of our molecular diagnostic tests. If we fail to establish our molecular diagnostic tests in the marketplace, it could have a negative effect on our ability to sell subsequent molecular diagnostic tests and hinder the desired expansion of our business. We have growing, however limited, historical experience forecasting the direct sales of our molecular diagnostics products. Our ability to produce test volumes that meet customer demand is dependent upon our ability to forecast accurately and plan production capacities accordingly.

Developing new products involves a lengthy and complex process, and we may not be able to commercialize on a timely basis, or at all, other products we are developing.

We continually seek to develop enhancements to our current test offerings and additional diagnostic solutions that requires us to devote considerable resources to research and development. There can be no assurance that we will be able to identify other diseases that can be effectively addressed with our molecular cytology platform. In addition, if we identify such diseases, we may not be able to develop products with the diagnostic accuracy necessary to be clinically useful and commercially successful. We may face challenges obtaining sufficient numbers of samples to validate a genomic signature for a molecular diagnostic product. We still must complete studies that meet the clinical evidence required to obtain reimbursement, which studies are currently underway.

In order to develop and commercialize diagnostic tests, we need to:

- expend significant funds to conduct substantial research and development;
- conduct successful analytical and clinical studies;
- scale our laboratory processes to accommodate new tests; and
- build the commercial infrastructure to market and sell new products.

Our product development process involves a high degree of risk and may take several years. Our product development efforts may fail for many reasons, including:

- failure to identify a genomic signature in biomarker discovery;
- inability to secure sufficient numbers of samples at an acceptable cost and on an acceptable timeframe to conduct analytical and clinical studies; or
- failure of clinical validation studies to support the effectiveness of the test.

Typically, few research and development projects result in commercial products, and success in early clinical studies often is not replicated in later studies. At any point, we may abandon development of a product candidate or we may be required to expend considerable resources repeating clinical studies, which would adversely affect the timing for generating potential revenue from a new product and our ability to invest in other products in our pipeline. If a clinical validation study fails to demonstrate the prospectively-defined endpoints of the study or if we fail to sufficiently demonstrate analytical validity, we might choose to abandon the development of the product, which could harm our business. In addition, competitors may develop and commercialize competing products or technologies faster than us or at a lower cost.

If we cannot enter into new clinical study collaborations, our product development and subsequent commercialization could be delayed.

In the past, we have entered into clinical study collaborations, and our success in the future depends in part on our ability to enter into additional collaborations with highly regarded institutions. This can be difficult due to internal and external constraints placed on these organizations. Some organizations may limit the number of collaborations they have with any one company so as to not be perceived as biased or conflicted. Organizations may also have insufficient administrative and related infrastructure to enable collaboration with many companies at once, which can extend the time it takes to develop, negotiate and implement a collaboration. Moreover, it may take longer to obtain the samples we need which could delay our trials, publications, and product launches and reimbursement. Additionally, organizations often insist on retaining the rights to publish the clinical data resulting from the collaboration. The publication of clinical data in peer-reviewed journals is a crucial step in commercializing and obtaining reimbursement for our diagnostic tests, and our inability to control when and if results are published may delay or limit our ability to derive sufficient revenue from them.

If we are unable to develop products to keep pace with rapid technological, medical and scientific change, our operating results and competitive position could be harmed.

In recent years, there have been numerous advances in technologies relating to diagnostics, particularly diagnostics that are based on genomic information. These advances require us to continuously develop our technology and to work to develop new solutions to keep pace with evolving standards of care. Our solutions could become obsolete unless we continually innovate and expand our product offerings to include new clinical applications. If we are unable to develop new products or to demonstrate the applicability of our products for other diseases, our sales could decline and our competitive position could be harmed.

We may acquire businesses or assets, form joint ventures or make investments in other companies or technologies that could harm our operating results, dilute our stockholders' ownership, increase our debt or cause us to incur significant expense.

We acquired Allegro Diagnostics Corp. in September 2014, and we may pursue additional acquisitions of complementary businesses or assets, as well as technology licensing arrangements as part of our business strategy. We also may pursue strategic alliances that leverage our core technology and industry experience to expand our offerings or distribution, or make investments in other companies. To date, we have limited experience with respect to acquisitions and the formation of strategic alliances and joint ventures. We may not be able to integrate acquisitions successfully into our existing business, and we could assume unknown or contingent liabilities. In addition, we may not realize the expected benefits of an acquisition or investment. Any acquisitions made by us also could result in significant write-offs or the incurrence of debt and contingent liabilities, any of which could harm our operating results. Integration of acquired companies or businesses we may acquire in the future also may require management resources that otherwise would be available for ongoing development of our existing business. We may not identify or complete these transactions in a timely manner, on a cost-effective basis, or at all, and we may not realize the anticipated benefits of any acquisition, technology license, strategic alliance, joint venture or investment.

To finance any acquisitions or investments, we may choose to issue shares of our stock as consideration, which would dilute the ownership of our stockholders. If the price of our common stock is low or volatile, we may not be able to acquire other companies for stock. Alternatively, it may be necessary for us to raise additional funds for these activities through public or private financings. Additional funds may not be available on terms that are favorable to us, or at all. If these funds are raised through the sale of equity or convertible debt securities, dilution to our stockholders could result. Our current loan and security agreement with Silicon Valley Bank, or loan and security agreement, contains covenants that could limit our ability to sell debt securities or obtain additional debt financing arrangements, which could affect our ability to finance acquisitions or investments other than through the issuance of stock.

Our credit facility provides our lenders with first-priority liens against substantially all of our assets, excluding our intellectual property, and contains financial covenants and other restrictions on our actions, which could limit our operational flexibility and otherwise adversely affect our financial condition.

In November 2017, we entered into the loan and security agreement with Silicon Valley Bank and terminated our prior credit agreement with Visium Healthcare Partners, LP. Our loan and security agreement restricts our ability to, among other things, incur liens, make investments, incur indebtedness, merge with or acquire other entities, dispose of assets, make dividends or other distributions to holders of its equity interests, engage in any new line of business, or enter into certain transactions with affiliates, in each case subject to certain exceptions.

Our loan and security agreement requires us to achieve certain revenue levels tested quarterly on a trailing twelve-month basis. However, failure to maintain the revenue levels will not be considered a default if we maintain liquidity of at least $40.0 million. Our ability to comply with these and other covenants is dependent upon a number of factors, some of which are beyond our control.

Our failure to comply with the financial covenants, or the occurrence of other events specified in our loan and security agreement, could result in an event of default under the loan and security agreement, which would give our lenders the right to terminate their commitments to provide additional loans under the loan and security agreement and to declare all borrowings outstanding, together with accrued and unpaid interest and fees, to be immediately due and payable. In addition, we have granted our lenders first-priority liens against all of our assets, excluding our intellectual property, as collateral. Failure to comply with the covenants or other restrictions in the loan and security agreement could result in a default. If the debt under our loan and security agreement was to be accelerated, we may not have sufficient cash on hand or be able to sell sufficient collateral to repay it, which would have an immediate adverse effect on our business and operating results. This could potentially cause us to cease operations and result in a complete loss of your investment in our common stock.

If we fail to comply with federal and state licensing requirements, we could lose the ability to perform our tests or experience disruptions to our business.

We are subject to CLIA, a federal law that regulates clinical laboratories that perform testing on specimens derived from humans for the purpose of providing information for the diagnosis, prevention or treatment of disease. CLIA regulations mandate specific personal qualifications, facilities administration, quality systems, inspections, and proficiency testing. CLIA certification is also required for us to be eligible to bill state and federal healthcare programs, as well as many private third-party payers. To renew these certifications, we are subject to survey and inspection every two years. Moreover, CLIA inspectors may make random inspections of our clinical reference laboratories.

We are also required to maintain state licenses to conduct testing in our laboratories. California, New York, Texas, among other states' laws, require that we maintain a license and comply with state regulation as a clinical laboratory. Other states may have similar requirements or may adopt similar requirements in the future. In addition, both of our clinical laboratories are required to be licensed on a test-specific basis by New York State. We have received approval for the Afirma and Percepta tests. We will be required to obtain approval for other tests we may offer in the future. If we were to lose our CLIA certificate or California license for our South San Francisco laboratory, whether as a result of revocation, suspension or limitation, we would no longer be able to perform our molecular tests, which would eliminate our primary source of revenue and harm our business. If we were to lose our CLIA certificate for our Austin laboratory, we would need to move the receipt and storage of FNAs, as well as the slide preparation for cytopathology, to South San Francisco, which could result in a delay in processing tests during that transition and increased costs. If we were to lose our licenses issued by New York or by other states where we are required to hold licenses, we would not be able to test specimens from those states. New tests we may develop may be subject to new approvals by regulatory bodies such as New York State, and we may not be able to offer our new tests until such approvals are received.

Complying with numerous statutes and regulations pertaining to our business is an expensive and time-consuming process, and any failure to comply could result in substantial penalties.

Our operations are subject to other extensive federal, state, local, and foreign laws and regulations, all of which are subject to change. These laws and regulations currently include, among others:

- the Federal Health Insurance Portability and Accountability Act of 1996, or HIPAA, which established comprehensive federal standards with respect to the privacy and security of protected health information and requirements for the use of certain standardized electronic transactions, and amendments made in 2013 to HIPAA under the Health Information Technology for Economic and Clinical Health Act, or HITECH, which strengthen and expand HIPAA privacy and security compliance requirements, increase penalties for violators, extend enforcement authority to state attorneys general, and impose requirements for breach notification;

- Medicare billing and payment regulations applicable to clinical laboratories;

- the Federal Anti-kickback Statute (and state equivalents), which prohibits knowingly and willfully offering, paying, soliciting, or receiving remuneration, directly or indirectly, in exchange for or to induce either the referral of an individual, or the furnishing, arranging for, or recommending of an item or service that is reimbursable, in whole or in part, by a federal healthcare program;

- the Federal Stark physician self-referral law (and state equivalents), which prohibits a physician from making a referral for certain designated health services covered by the Medicare program, including laboratory and pathology services, if the physician or an immediate family member has a financial relationship with the entity providing the designated health services, unless the financial relationship falls within an applicable exception to the prohibition;

- the Federal Civil Monetary Penalties Law, which prohibits, among other things, the offering or transfer of remuneration to a Medicare or state health care program beneficiary if the person knows or should know it is likely to influence the beneficiary's selection of a particular provider, practitioner, or supplier of services reimbursable by Medicare or a state health care program, unless an exception applies;

- the Federal False Claims Act, which imposes liability on any person or entity who knowingly presents, or causes to be presented, a false, fictitious, or fraudulent claim for payment to the federal government;

- other federal and state fraud and abuse laws, such as anti-kickback laws, prohibitions on self-referral, fee-splitting restrictions, prohibitions on the provision of products at no or discounted cost to induce physician or patient adoption, and false claims acts, which may extend to services reimbursable by any third-party payer, including private insurers;

- the prohibition on reassignment of Medicare claims, which, subject to certain exceptions, precludes the reassignment of Medicare claims to any other party;

- the Protecting Access to Medicare Act of 2014, which requires us to report private payer rates and test volumes for specific CPT codes on a triennial basis and imposes penalties for failures to report, omissions, or misrepresentations;

- the rules regarding billing for diagnostic tests reimbursable by the Medicare program, which prohibit a physician or other supplier from marking up the price of the technical component or professional component of a diagnostic test ordered by the physician or other supplier and supervised or performed by a physician who does not "share a practice" with the billing physician or supplier;

- state laws that prohibit other specified practices related to billing such as billing physicians for testing that they order, waiving co-insurance, co-payments, deductibles, and other amounts owed by patients, and billing a state Medicaid program at a price that is higher than what is charged to other payers;

- the Foreign Corrupt Practices Act of 1977, and other similar laws, which apply to our international activities;

- unclaimed property (escheat) laws and regulations, which may require us to turn over to governmental authorities the property of others held by us that has been unclaimed for a specified period of time; and

- enforcing our intellectual property rights.

We have adopted policies and procedures designed to comply with applicable laws and regulations. In the ordinary course of our business, we conduct internal reviews of our compliance with these laws. Our compliance with some of these laws and regulations is also subject to governmental review. The growth of our business and sales organization and our expansion outside of the United States may increase the potential of violating these laws or our internal policies and procedures. We believe that we are in material compliance with all statutory and regulatory requirements, but there is a risk that one or more government agencies could take a contrary position.

In recent years U.S. Attorneys' Offices have increased scrutiny of the healthcare industry, as have Congress, the Department of Justice, the Department of Health and Human Services' Office of the Inspector General and the Department of Defense. These bodies have all issued subpoenas and other requests for information to conduct investigations of, and commenced civil and criminal litigation against, healthcare companies based on financial arrangements with health care providers, regulatory compliance, product promotional practices and documentation, and coding and billing practices. Whistleblowers have filed numerous qui tam lawsuits against healthcare companies under the federal and state False Claims Acts in recent years, in part because the whistleblower can receive a portion of the government's recovery under such suits.

These laws and regulations are complex and are subject to interpretation by the courts and by government agencies. If one or more such agencies alleges that we may be in violation of any of these requirements, regardless of the outcome, it could damage our reputation and adversely affect important business relationships with third parties, including managed care organizations and other commercial third-party payers. Any action brought against us for violation of these or other laws or regulations, even if we successfully defend against it, could cause us to incur significant legal expenses and divert our management's attention from the operation of our business. If our operations are found to be in violation of any of these laws and regulations, we may be subject to any applicable penalty associated with the violation, including civil and criminal penalties, damages and fines, we could be required to refund payments received by us, and we could be required to curtail or cease our operations. Any of the foregoing consequences could seriously harm our business and our financial results.

If we use hazardous materials in a manner that causes contamination or injury, we could be liable for resulting damages.

We are subject to federal, state and local laws, rules and regulations governing the use, discharge, storage, handling and disposal of biological material, chemicals and waste. We cannot eliminate the risk of accidental contamination or injury to employees or third parties from the use, storage, handling or disposal of these materials. In the event of contamination or injury, we could be held liable for any resulting damages, remediation costs and any related penalties or fines, and any liability could exceed our resources or any applicable insurance coverage we may have. The cost of compliance with these laws and regulations may become significant, and our failure to comply may result in substantial fines or other consequences, and either could negatively affect our operating results.

International expansion of our business exposes us to business, regulatory, political, operational, financial and economic risks associated with doing business outside of the United States.

Our business strategy includes international expansion in select countries, and may include developing and maintaining physician outreach and education capabilities outside of the United States, establishing agreements with laboratories, and expanding our relationships with international payers. Doing business internationally involves a number of risks, including:

- multiple, conflicting and changing laws and regulations such as tax laws, privacy laws, export and import restrictions, employment laws, regulatory requirements and other governmental approvals, permits and licenses;
- failure by us to obtain regulatory approvals where required for the use of our solutions in various countries;
- complexities associated with managing multiple payer reimbursement regimes, government payers or patient self-pay systems;
- logistics and regulations associated with shipping tissue samples, including infrastructure conditions and transportation delays;
- challenges associated with establishing laboratory partners, including proper sample collection techniques, inventory management, sample logistics, billing and promotional activities;
- limits on our ability to penetrate international markets if we are not able to process tests locally;
- financial risks, such as longer payment cycles, difficulty in collecting from payers, the effect of local and regional financial crises, and exposure to foreign currency exchange rate fluctuations;
- natural disasters, political and economic instability, including wars, terrorism, and political unrest, outbreak of disease, boycotts, curtailment of trade and other business restrictions; and
- regulatory and compliance risks that relate to maintaining accurate information and control over activities that may fall within the purview of the Foreign Corrupt Practices Act of 1977, including both its books and records provisions and its anti-bribery provisions.

Any of these factors could significantly harm our future international expansion and operations and, consequently, our revenue and results of operations.

If we are sued for product liability or errors and omissions liability, we could face substantial liabilities that exceed our resources.

The marketing, sale and use of our current or future tests could lead to product liability claims if someone were to allege that the tests failed to perform as they were designed. We may also be subject to liability for errors in the results we provide to physicians or for a misunderstanding of, or inappropriate reliance upon, the information we provide. Our Afirma classifiers are

performed on FNA samples that are diagnosed as indeterminate by standard cytopathology review. We report results as benign or suspicious to the prescribing physician. Under certain circumstances, we might report a result as benign that later proves to have been malignant. This could be the result of the physician having poor nodule sampling in collecting the FNA, performing the FNA on a different nodule than the one that is malignant or failure of the classifier to perform as intended. We may also be subject to similar types of claims related to our Percepta and Envisia tests, as well as tests we may develop in the future. A product liability or errors and omissions liability claim could result in substantial damages and be costly and time consuming for us to defend. Although we maintain product liability and errors and omissions insurance, we cannot assure you that our insurance would fully protect us from the financial impact of defending against these types of claims or any judgments, fines or settlement costs arising out of any such claims. Any product liability or errors and omissions liability claim brought against us, with or without merit, could increase our insurance rates or prevent us from securing insurance coverage in the future. Additionally, any product liability lawsuit could cause injury to our reputation or cause us to suspend sales of our products and solutions. The occurrence of any of these events could have an adverse effect on our business and results of operations.

If a catastrophe strikes either of our laboratories or if either of our laboratories becomes inoperable for any other reason, we will be unable to perform our testing services and our business will be harmed.

We perform all of the Afirma, Percepta and Envisia genomic classifier testing at our laboratory in South San Francisco, California, near major earthquake faults known for seismic activity. Our laboratory in Austin, Texas accepts and stores substantially all Afirma FNA samples pending transfer to our California laboratory for genomic test processing. The laboratories and equipment we use to perform our tests would be costly to replace and could require substantial lead time to replace and qualify for use if they became inoperable. Either of our facilities may be harmed or rendered inoperable by natural or man-made disasters, including earthquakes, flooding and power outages, which may render it difficult or impossible for us to perform our testing services for some period of time or to receive and store samples. The inability to perform our tests for even a short period of time may result in the loss of customers or harm our reputation, and we may be unable to regain those customers in the future. Although we maintain insurance for damage to our property and the disruption of our business, this insurance may not be sufficient to cover all of our potential losses and may not continue to be available to us on acceptable terms, if at all.

Our inability to raise additional capital on acceptable terms in the future may limit our ability to develop and commercialize new solutions and technologies and expand our operations.

We expect continued capital expenditures and operating losses over the next few years as we expand our infrastructure, commercial operations and research and development activities. We may seek to raise additional capital through equity offerings, debt financings, collaborations or licensing arrangements. Additional funding may not be available to us on acceptable terms, or at all. If we raise funds by issuing equity securities, dilution to our stockholders could result. Any equity securities issued also may provide for rights, preferences or privileges senior to those of holders of our common stock. The terms of debt securities issued or borrowings could impose significant restrictions on our operations. The incurrence of additional indebtedness or the issuance of certain equity securities could result in increased fixed payment obligations and could also result in restrictive covenants, such as limitations on our ability to incur additional debt or issue additional equity, limitations on our ability to acquire or license intellectual property rights, and other operating restrictions that could adversely affect our ability to conduct our business. Our current loan and security agreement imposes restrictions on our operations, increases our fixed payment obligations, and has restrictive covenants. In addition, the issuance of additional equity securities by us, or the possibility of such issuance, may cause the market price of our common stock to decline. In the event that we enter into collaborations or licensing arrangements to raise capital, we may be required to accept unfavorable terms. These agreements may require that we relinquish or license to a third-party on unfavorable terms our rights to technologies or product candidates that we otherwise would seek to develop or commercialize ourselves, or reserve certain opportunities for future potential arrangements when we might be able to achieve more favorable terms. If we are not able to secure additional funding when needed, we may have to delay, reduce the scope of or eliminate one or more research and development programs or selling and marketing initiatives. In addition, we may have to work with a partner on one or more of our products or development programs, which could lower the economic value of those programs to our company.

Security breaches, loss of data and other disruptions to us or our third-party service providers could compromise sensitive information related to our business or prevent us from accessing critical information and expose us to liability, which could adversely affect our business and our reputation.

In the ordinary course of our business, we and our third-party service providers collect and store sensitive data, including legally protected health information, personally identifiable information about our patients, credit card information, intellectual

property, and our proprietary business and financial information. We manage and maintain our applications and data utilizing a combination of on-site systems, managed data center systems and cloud-based data center systems. We face a number of risks related to our protection of, and our service providers' protection of, this critical information, including loss of access, inappropriate disclosure and inappropriate access, as well as risks associated with our ability to identify and audit such events.

The secure processing, storage, maintenance and transmission of this critical information is vital to our operations and business strategy, and we devote significant resources to protecting such information. Although we take measures to protect sensitive information from unauthorized access or disclosure, our information technology and infrastructure may be vulnerable to attacks by hackers or viruses or otherwise breached due to employee error, malfeasance or other activities. While we are not aware of any such attack or breach, if such event would occur and cause interruptions in our operations, our networks would be compromised and the information we store on those networks could be accessed by unauthorized parties, publicly disclosed, lost or stolen. Any such access, disclosure or other loss of information could result in legal claims or proceedings, liability under federal, state, and international laws that protect the privacy of personal information, such as HIPAA, and regulatory penalties. Unauthorized access, loss or dissemination could also disrupt our operations, including our ability to process tests, provide test results, bill payers or patients, process claims and appeals, provide customer assistance services, conduct research and development activities, collect, process and prepare company financial information, provide information about our tests and other patient and physician education and outreach efforts through our website, manage the administrative aspects of our business and damage our reputation, any of which could adversely affect our business.

In addition, the interpretation and application of consumer, health-related and data protection laws in the United States, Europe and elsewhere are often uncertain, contradictory and in flux. It is possible that these laws may be interpreted and applied in a manner that is inconsistent with our practices. If so, this could result in government-imposed fines or orders requiring that we change our practices, which could adversely affect our business. In addition, in October 2015, the European Court of Justice invalidated a safe-harbor agreement between the United States and European Union member-states, which addressed how U.S. companies handle personal information of European customers. On May 4, 2016, the European Commission published a new Regulation and a new Directive regarding personal data privacy. The Regulation went into force on May 24, 2016 and shall apply beginning May 25, 2018. The Directive went into force on May 5, 2016 and EU member states must transpose it into their national law by May 6, 2018. As a result, we may need to modify the way we treat such information. Complying with these various laws could cause us to incur substantial costs or require us to change our business practices, systems and compliance procedures in a manner adverse to our business.

If we cannot license rights to use technologies on reasonable terms, we may not be able to commercialize new products in the future.

In the future, we may license third-party technology to develop or commercialize new products. In return for the use of a third-party's technology, we may agree to pay the licensor royalties based on sales of our solutions. Royalties are a component of cost of revenue and affect the margins on our solutions. We may also need to negotiate licenses to patents and patent applications after introducing a commercial product. Our business may suffer if we are unable to enter into the necessary licenses on acceptable terms, or at all, if any necessary licenses are subsequently terminated, if the licensors fail to abide by the terms of the license or fail to prevent infringement by third parties, or if the licensed patents or other rights are found to be invalid or unenforceable.

If we are unable to protect our intellectual property effectively, our business would be harmed.

We rely on patent protection as well as trademark, copyright, trade secret and other intellectual property rights protection and contractual restrictions to protect our proprietary technologies, all of which provide limited protection and may not adequately protect our rights or permit us to gain or keep any competitive advantage. If we fail to protect our intellectual property, third parties may be able to compete more effectively against us and we may incur substantial litigation costs in our attempts to recover or restrict use of our intellectual property.

We apply for and in-license patents covering our products and technologies and uses thereof, as we deem appropriate, however we may fail to apply for patents on important products and technologies in a timely fashion or at all, or we may fail to apply for patents in potentially relevant jurisdictions. We have fifteen issued patents that expire between 2029 and 2032 related to methods used in the Afirma diagnostic platform, in addition to fourteen pending U.S. utility patent applications, one pending Patent Cooperation Treaty, or PCT, patent application and two U.S. provisional patent applications. Some of these U.S. utility patent applications have pending foreign counterparts. We also exclusively licensed intellectual property, including rights to four issued patents that will expire between 2030 and 2032, and three pending U.S. utility patent applications in the thyroid space that

would expire between 2030 and 2033 once issued, related to methods that are used in the Afirma diagnostic test, some of which have foreign counterparts. In the lung diagnostic space, we have exclusively licensed intellectual property rights to thirteen pending patent applications and eight issued patents. Patents issuing from the licensed portfolio will expire between 2024 and 2028. In addition, we own two pending U.S. provisional applications, a pending U.S. utility patent application and pending foreign counterpart patent applications in Australia, Canada, China, Europe, Japan, and South Korea related to our Percepta test. We also own one U.S. patent application and one counterpart European patent application related to another lung disease, and two pending U.S. patent applications, five patent applications abroad, and one PCT patent application related to Envisia. Any patents granted from our current lung cancer patent applications will expire no earlier than 2035 and those from the interstitial lung disease patent applications will expire no earlier than 2034. It is possible that none of our pending patent applications will result in issued patents in a timely fashion or at all, and even if patents are granted, they may not provide a basis for intellectual property protection of commercially viable products, may not provide us with any competitive advantages, or may be challenged and invalidated by third parties. It is possible that others will design around our current or future patented technologies. We may not be successful in defending any challenges made against our patents or patent applications. Any successful third-party challenge to our patents could result in the unenforceability or invalidity of such patents and increased competition to our business. The outcome of patent litigation can be uncertain and any attempt by us to enforce our patent rights against others may not be successful, or, if successful, may take substantial time and result in substantial cost, and may divert our efforts and attention from other aspects of our business.

The patent positions of life sciences companies can be highly uncertain and involve complex legal and factual questions for which important legal principles remain unresolved. No consistent policy regarding the breadth of claims allowed in such companies' patents has emerged to date in the United States or elsewhere. Courts frequently render opinions in the biotechnology field that may affect the patentability of certain inventions or discoveries, including opinions that may affect the patentability of methods for analyzing or comparing nucleic acids.

In particular, the patent positions of companies engaged in the development and commercialization of genomic diagnostic tests are particularly uncertain. Various courts, including the U.S. Supreme Court, have rendered decisions that affect the scope of patentability of certain inventions or discoveries relating to certain diagnostic tests and related methods. These decisions state, among other things, that patent claims that recite laws of nature (for example, the relationship between blood levels of certain metabolites and the likelihood that a dosage of a specific drug will be ineffective or cause harm) are not themselves patentable. What constitutes a law of nature is uncertain, and it is possible that certain aspects of genomic diagnostics tests would be considered natural laws. Accordingly, the evolving case law in the United States may adversely affect our ability to obtain patents and may facilitate third-party challenges to any owned and licensed patents.

The laws of some foreign countries do not protect intellectual property rights to the same extent as the laws of the United States, and we may encounter difficulties protecting and defending such rights in foreign jurisdictions. The legal systems of many other countries do not favor the enforcement of patents and other intellectual property protection, particularly those relating to biotechnology, which could make it difficult for us to stop the infringement of our patents in such countries. Proceedings to enforce our patent rights in foreign jurisdictions could result in substantial cost and divert our efforts and attention from other aspects of our business.

Changes in either the patent laws or in interpretations of patent laws in the United States or other countries may diminish the value of our intellectual property. We cannot predict the breadth of claims that may be allowed or enforced in our patents or in third-party patents. We may not develop additional proprietary products, methods and technologies that are patentable.

In addition to pursuing patents on our technology, we take steps to protect our intellectual property and proprietary technology by entering into agreements, including confidentiality agreements, non-disclosure agreements and intellectual property assignment agreements, with our employees, consultants, academic institutions, corporate partners and, when needed, our advisors. Such agreements may not be enforceable or may not provide meaningful protection for our trade secrets or other proprietary information in the event of unauthorized use or disclosure or other breaches of the agreements, and we may not be able to prevent such unauthorized disclosure. If we are required to assert our rights against such party, it could result in significant cost and distraction.

Monitoring unauthorized disclosure is difficult, and we do not know whether the steps we have taken to prevent such disclosure are, or will be, adequate. If we were to enforce a claim that a third-party had illegally obtained and was using our trade secrets, it would be expensive and time consuming, and the outcome would be unpredictable. In addition, courts outside the United States may be less willing to protect trade secrets.

We may also be subject to claims that our employees have inadvertently or otherwise used or disclosed trade secrets or other proprietary information of their former employers, or to claims that we have improperly used or obtained such trade secrets. Litigation may be necessary to defend against these claims. If we fail in defending such claims, in addition to paying monetary damages, we may lose valuable intellectual property rights and face increased competition to our business. A loss of key research personnel work product could hamper or prevent our ability to commercialize potential products, which could harm our business. Even if we are successful in defending against these claims, litigation could result in substantial costs and be a distraction to management.

Further, competitors could attempt to replicate some or all of the competitive advantages we derive from our development efforts, willfully infringe our intellectual property rights, design around our protected technology or develop their own competitive technologies that fall outside of our intellectual property rights. Others may independently develop similar or alternative products and technologies or replicate any of our products and technologies. If our intellectual property does not adequately protect us against competitors' products and methods, our competitive position could be adversely affected, as could our business.

We have not registered certain of our trademarks in all of our potential markets. If we apply to register these trademarks, our applications may not be allowed for registration in a timely fashion or at all, and our registered trademarks may not be maintained or enforced. In addition, opposition or cancellation proceedings may be filed against our trademark applications and registrations, and our trademarks may not survive such proceedings. If we do not secure registrations for our trademarks, we may encounter more difficulty in enforcing them against third parties than we otherwise would.

To the extent our intellectual property offers inadequate protection, or is found to be invalid or unenforceable, we would be exposed to a greater risk of direct competition. If our intellectual property does not provide adequate coverage of our competitors' products, our competitive position could be adversely affected, as could our business. Both the patent application process and the process of managing patent disputes can be time consuming and expensive.

We may be involved in litigation related to intellectual property, which could be time-intensive and costly and may adversely affect our business, operating results or financial condition.

We may receive notices of claims of direct or indirect infringement or misappropriation or misuse of other parties' proprietary rights from time to time. Some of these claims may lead to litigation. We cannot assure you that we will prevail in such actions, or that other actions alleging misappropriation or misuse by us of third-party trade secrets, infringement by us of third-party patents and trademarks or other rights, or the validity of our patents, trademarks or other rights, will not be asserted or prosecuted against us.

We might not have been the first to make the inventions covered by each of our pending patent applications and we might not have been the first to file patent applications for these inventions. To determine the priority of these inventions, we may have to participate in interference proceedings, derivation proceedings, or other post-grant proceedings declared by the U.S. Patent and Trademark Office that could result in substantial cost to us. No assurance can be given that other patent applications will not have priority over our patent applications. In addition, recent changes to the patent laws of the United States allow for various post-grant opposition proceedings that have not been extensively tested, and their outcome is therefore uncertain. Furthermore, if third parties bring these proceedings against our patents, we could experience significant costs and management distraction.

Litigation may be necessary for us to enforce our patent and proprietary rights or to determine the scope, coverage and validity of the proprietary rights of others. The outcome of any litigation or other proceeding is inherently uncertain and might not be favorable to us, and we might not be able to obtain licenses to technology that we require on acceptable terms or at all. Further, we could encounter delays in product introductions, or interruptions in product sales, as we develop alternative methods or products. In addition, if we resort to legal proceedings to enforce our intellectual property rights or to determine the validity, scope and coverage of the intellectual property or other proprietary rights of others, the proceedings could be burdensome and expensive, even if we were to prevail. Any litigation that may be necessary in the future could result in substantial costs and diversion of resources and could have a material adverse effect on our business, operating results or financial condition.

As we move into new markets and applications for our products, incumbent participants in such markets may assert their patents and other proprietary rights against us as a means of slowing our entry into such markets or as a means to extract substantial license and royalty payments from us. Our competitors and others may now and, in the future, have significantly larger and more mature patent portfolios than we currently have. In addition, future litigation may involve patent holding companies or other adverse patent owners who have no relevant product revenue and against whom our own patents may provide little or no deterrence

or protection. Therefore, our commercial success may depend in part on our non-infringement of the patents or proprietary rights of third parties. Numerous significant intellectual property issues have been litigated, and will likely continue to be litigated, between existing and new participants in our existing and targeted markets and competitors may assert that our products infringe their intellectual property rights as part of a business strategy to impede our successful entry into or growth in those markets. Third parties may assert that we are employing their proprietary technology without authorization. In addition, our competitors and others may have patents or may in the future obtain patents and claim that making, having made, using, selling, offering to sell or importing our products infringes these patents. We could incur substantial costs and divert the attention of our management and technical personnel in defending against any of these claims. Parties making claims against us may be able to obtain injunctive or other relief, which could block our ability to develop, commercialize and sell products, and could result in the award of substantial damages against us. In the event of a successful claim of infringement against us, we may be required to pay damages and ongoing royalties, and obtain one or more licenses from third parties, or be prohibited from selling certain products. We may not be able to obtain these licenses on acceptable terms, if at all. We could incur substantial costs related to royalty payments for licenses obtained from third parties, which could negatively affect our financial results. In addition, we could encounter delays in product introductions while we attempt to develop alternative methods or products to avoid infringing third-party patents or proprietary rights. Defense of any lawsuit or failure to obtain any of these licenses could prevent us from commercializing products, and the prohibition of sale of any of our products could materially affect our business and our ability to gain market acceptance for our products.

Furthermore, because of the substantial amount of discovery required in connection with intellectual property litigation, there is a risk that some of our confidential information could be compromised by disclosure during this type of litigation. In addition, during the course of this kind of litigation, there could be public announcements of the results of hearings, motions or other interim proceedings or developments. If securities analysts or investors perceive these results to be negative, it could have a substantial adverse effect on the price of our common stock.

In addition, our agreements with some of our customers, suppliers or other entities with whom we do business require us to defend or indemnify these parties to the extent they become involved in infringement claims, including the types of claims described above. We could also voluntarily agree to defend or indemnify third parties in instances where we are not obligated to do so if we determine it would be important to our business relationships. If we are required or agree to defend or indemnify third parties in connection with any infringement claims, we could incur significant costs and expenses that could adversely affect our business, operating results, or financial condition.

Our ability to use our net operating loss carryforwards may be limited and may result in increased future tax liability to us.

We have incurred net losses since our inception and may never achieve profitability. As of our fiscal year ended December 31, 2017, we had U.S. federal and state net operating losses, or NOLs, of approximately $196.1 million and $91.8 million, respectively. The federal and state NOL carryforwards will begin to expire, if not utilized, beginning in 2028. These NOL carryforwards could expire unused and be unavailable to offset future income tax liabilities. Under the newly enacted federal income tax law, federal NOLs incurred in tax years beginning after December 31, 2017 may be carried forward indefinitely, but the deductibility of such federal NOLs is limited. It is uncertain if and to what extent various states will conform to the newly enacted federal tax law.

To the extent that we continue to generate taxable losses, unused losses will carry forward to offset future taxable income, if any, until such unused losses expire. We may be limited in the portion of NOL carryforwards that we can use in the future to offset taxable income for U.S. federal and state income tax purposes, and federal tax credits to offset federal tax liabilities. Sections 382 and 383 of Internal Revenue Code limit the use of NOLs and tax credits after a cumulative change in corporate ownership of more than 50% occurs within a three-year period. The limitation could prevent a corporation from using some or all its NOL and tax credits before they expire within their normal 20-year lifespan, as it places a formula limit of how much NOL and tax credits a loss corporation can use in a tax year. In the event we have undergone an ownership change under Section 382 of the Internal Revenue Code, if we earn net taxable income, our ability to use our pre-change NOL carryforwards to offset U.S. federal taxable income may become subject to limitations, which could potentially result in increased future tax liability to us.

Comprehensive tax reform bills could adversely affect our business and financial condition.

The U.S. government has recently enacted comprehensive tax legislation that includes significant changes to the taxation of business entities. These changes include, among others, (i) a permanent reduction to the corporate income tax rate, (ii) a partial

limitation on the deductibility of business interest expense, (iii) a shift of the U.S. taxation of multinational corporations from a tax on worldwide income to a territorial system (along with certain rules designed to prevent erosion of the U.S. income tax base) and (iv) a one-time tax on accumulated offshore earnings held in cash and illiquid assets, with the latter taxed at a lower rate.

Notwithstanding the reduction in the corporate income tax rate, the overall impact of this tax reform is uncertain, and our business and financial condition could be adversely affected. In addition, it is uncertain if and to what extent various states will conform to the newly enacted federal tax law.

If our goodwill or intangible assets become impaired, we may be required to record a significant charge to earnings.

We review our goodwill and intangible assets for impairment when events or changes in circumstances indicate the carrying value may not be recoverable, such as declines in stock price, market capitalization, or cash flows and slower growth rates in our industry. Goodwill is required to be tested for impairment at least annually. If we are required to record a significant charge in our financial statements during the period in which any impairment of our goodwill or intangible assets is determined, that would negatively affect our operating results.

Changes in financial accounting standards or practices may cause adverse, unexpected financial reporting fluctuations and affect our reported operating results.

U.S. GAAP, is subject to interpretation by the Financial Accounting Standards Board, the Securities and Exchange Commission, or the SEC, and various bodies formed to promulgate and interpret appropriate accounting principles. A change in accounting standards or practices can have a significant effect on our reported results and may even affect our reporting of transactions completed before the change is effective. New accounting pronouncements and varying interpretations of accounting pronouncements have occurred and may occur in the future. Changes to existing rules or the questioning of current practices may adversely affect our reported financial results or the way we conduct our business.

For example, the FASB and the International Accounting Standards Board are working to converge certain accounting principles and facilitate more comparable financial reporting between companies that are required to follow U.S. GAAP and those that are required to follow International Financial Reporting Standards, or IFRS. In connection with these initiatives, the FASB issued new accounting standards for revenue recognition that replace most existing revenue recognition guidance. We have completed our assessment of the new accounting standards for revenue recognition and believe that the adoption of this new standard will not have a material impact on our financial reporting position or results of operations. The impact of the convergence of U.S. GAAP and IFRS, if any, on our financial statements is uncertain and may not be known until additional rules are proposed and adopted, which may or may not occur.

Our financial statements are subject to change and if our estimates or judgments relating to our critical accounting policies prove to be incorrect, our operating results could be adversely affected.

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in our financial statements and related notes. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, as provided in the section titled “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in this Annual Report on Form 10-K. The results of these estimates form the basis for making judgments about the carrying values of assets, liabilities, and equity, and the amount of revenue and expenses that are not readily apparent from other sources. Critical accounting policies and estimates used in preparing our financial statements include those related to revenue recognition, finite-lived intangible assets, goodwill, and stock-based compensation expense. Our operating results may be adversely affected if our assumptions change or if actual circumstances differ from those in our assumptions, which could cause our operating results to fall below the expectations of securities analysts and investors, resulting in a decline in the price of our common stock.

Risks Related to Being a Public Company

We will continue to incur increased costs and demands on management as a result of compliance with laws and regulations applicable to public companies, which could harm our operating results.

As a public company, we will continue to incur significant legal, accounting, consulting and other expenses that we did not incur as a private company, including costs associated with public company reporting requirements. In addition, the Sarbanes-Oxley Act of 2002 and the Dodd-Frank Act of 2010, as well as rules implemented by the SEC, and The Nasdaq Stock Market, impose a number of requirements on public companies, including with respect to corporate governance practices. Our management and other personnel will need to devote a substantial amount of time to these compliance and disclosure obligations. Moreover, these rules and regulations have and will continue to increase our legal, accounting and financial compliance costs and make some activities more complex, time-consuming and costly. We also expect that it will continue to be expensive for us to maintain director and officer liability insurance.

If we are unable to implement and maintain effective internal control over financial reporting, investors may lose confidence in the accuracy and completeness of our reported financial information and the market price of our common stock may be negatively affected.

As a public company, we are required to maintain internal control over financial reporting and to report any material weaknesses in such internal control. Section 404 of the Sarbanes-Oxley Act of 2002 requires that we evaluate and determine the effectiveness of our internal control over financial reporting and provide a management report on our internal controls on an annual basis. If we have material weaknesses in our internal control over financial reporting, we may not detect errors on a timely basis and our financial statements may be materially misstated. We have only recently compiled the systems, processes and documentation necessary to comply with Section 404 of the Sarbanes-Oxley Act. We will need to maintain and enhance these processes and controls as we grow, and we will require additional management and staff resources to do so. Additionally, even if we conclude our internal controls are effective for a given period, we may in the future identify one or more material weaknesses in our internal controls, in which case our management will be unable to conclude that our internal control over financial reporting is effective. Moreover, when we are no longer an emerging growth company, our independent registered public accounting firm will be required to issue an attestation report on the effectiveness of our internal control over financial reporting. Even if our management concludes that our internal control over financial reporting is effective, our independent registered public accounting firm may conclude that there are material weaknesses with respect to our internal controls or the level at which our internal controls are documented, designed, implemented or reviewed.

If we are unable to conclude that our internal control over financial reporting is effective, or when we are no longer an emerging growth company, if our auditors were to express an adverse opinion on the effectiveness of our internal control over financial reporting because we had one or more material weaknesses, investors could lose confidence in the accuracy and completeness of our financial disclosures, which could cause the price of our common stock to decline. Irrespective of compliance with Section 404, any failure of our internal control over financial reporting could have a material adverse effect on our reported operating results and harm our reputation. Internal control deficiencies could also result in a restatement of our financial results.

We are an emerging growth company and may elect to comply with reduced public company reporting requirements applicable to emerging growth companies, which could make our common stock less attractive to investors.

We are an emerging growth company, as defined under the Securities Act of 1933, or the Securities Act. We will remain an emerging growth company until December 31, 2018. As an emerging growth company, we may choose to take advantage of exemptions from various reporting requirements applicable to certain other public companies, including not being required to comply with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act of 2002, reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements, and exemptions from the requirement of holding a nonbinding advisory vote on executive compensation and obtaining stockholder approval of any golden parachute payments not previously approved by our stockholders. However, we previously irrevocably elected not to avail ourselves of this exemption from new or revised accounting standards and, therefore, will be subject to the same new or revised accounting standards as other public companies that are not emerging growth companies. If some investors find our common stock less attractive as a result of any choices to reduce future disclosure we may make, there may be a less active trading market for our common stock and our stock price may be more volatile.

Risks Related to Our Common Stock

Our stock price may be volatile, and you may not be able to sell shares of our common stock at or above the price you paid.

The trading price of our common stock is likely to continue to be highly volatile and could be subject to wide fluctuations in response to various factors, some of which are beyond our control. These factors include:

- actual or anticipated variations in our and our competitors' results of operations;
- announcements by us or our competitors of new products, commercial relationships or capital commitments;
- changes in reimbursement by current or potential payers, including governmental payers;
- issuance of new securities analysts' reports or changed recommendations for our stock;
- fluctuations in our revenue, due in part to the way in which we recognize revenue;
- actual or anticipated changes in regulatory oversight of our products;
- developments or disputes concerning our intellectual property or other proprietary rights;
- commencement of, or our involvement in, litigation;
- announced or completed acquisitions of businesses or technologies by us or our competitors;
- any major change in our management; and
- general economic conditions and slow or negative growth of our markets.

In addition, the stock market in general, and the market for stock of life sciences companies and other emerging growth companies in particular, has experienced extreme price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of those companies. Broad market and industry factors may seriously affect the market price of our common stock, regardless of our actual operating performance. These fluctuations may be even more pronounced if the trading volume of our stock remains low. In addition, in the past, following periods of volatility in the overall market and the market price of a particular company's securities, securities class action litigation has often been instituted against these companies. This litigation, if instituted against us, could result in substantial costs and a diversion of our management's attention and resources.

If securities or industry analysts issue an adverse opinion regarding our stock or do not publish research or reports about our company, our stock price and trading volume could decline.

The trading market for our common stock will depend in part on the research and reports that equity research analysts publish about us, our business and our competitors. We do not control these analysts or the content and opinions or financial models included in their reports. Securities analysts may elect not to provide research coverage of our company, and such lack of research coverage may adversely affect the market price of our common stock. The price of our common stock could also decline if one or more equity research analysts downgrade our common stock or if those analysts issue other unfavorable commentary or cease publishing reports about us or our business. If one or more equity research analysts cease coverage of our company, we could lose visibility in the market, which in turn could cause our stock price to decline.

Insiders have substantial control over us and will be able to influence corporate matters.

As of February 23, 2018, directors and executive officers and their affiliates beneficially owned, in the aggregate, 14% of our outstanding capital stock. As a result, these stockholders will be able to exercise significant influence over all matters requiring stockholder approval, including the election of directors and approval of significant corporate transactions, such as a merger or other sale of our company or its assets. This concentration of ownership could limit stockholders' ability to influence corporate matters and may have the effect of delaying or preventing a third-party from acquiring control over us.

Anti-takeover provisions in our charter documents and under Delaware law could discourage, delay or prevent a change in control and may affect the trading price of our common stock.

Provisions in our restated certificate of incorporation and our amended and restated bylaws may have the effect of delaying or preventing a change of control or changes in our management. Our restated certificate of incorporation and amended and restated bylaws include provisions that:

- authorize our board of directors to issue, without further action by the stockholders, up to 5.0 million shares of undesignated preferred stock;
- require that any action to be taken by our stockholders be effected at a duly called annual or special meeting and not by written consent;
- specify that special meetings of our stockholders can be called only by our board of directors, our chairman of the board, or our chief executive officer;
- establish an advance notice procedure for stockholder approvals to be brought before an annual meeting of our stockholders, including proposed nominations of persons for election to our board of directors;
- establish that our board of directors is divided into three classes, Class I, Class II and Class III, with each class serving staggered terms;
- provide that our directors may be removed only for cause;
- provide that vacancies on our board of directors may, except as otherwise required by law, be filled only by a majority of directors then in office, even if less than a quorum;
- specify that no stockholder is permitted to cumulate votes at any election of directors; and
- require a super-majority of votes to amend certain of the above-mentioned provisions.

In addition, we are subject to the provisions of Section 203 of the Delaware General Corporation Law regulating corporate takeovers. Section 203 generally prohibits us from engaging in a business combination with an interested stockholder subject to certain exceptions.

We have never paid dividends on our capital stock, and we do not anticipate paying dividends in the foreseeable future.

We have never paid dividends on any of our capital stock and currently intend to retain any future earnings to fund the growth of our business. In addition, our loan and security agreement restricts our ability to pay cash dividends on our common stock and we may also enter into credit agreements or other borrowing arrangements in the future that will restrict our ability to declare or pay cash dividends on our common stock. Any determination to pay dividends in the future will be at the discretion of our board of directors and will depend on our financial condition, operating results, capital requirements, general business conditions and other factors that our board of directors may deem relevant. As a result, capital appreciation, if any, of our common stock will be the sole source of gain for the foreseeable future.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

On April 29, 2015, we signed a non-cancelable lease agreement for approximately 59,000 square feet to serve as our South San Francisco, California headquarters and laboratory. The lease began in June 2015 and ends in March 2026, and contains extension of lease term and expansion options. Certain expansion options were waived by the Company on February 8, 2017 in exchange for consideration of $500,000. We also lease approximately 10,400 square feet of office and laboratory space in Austin, Texas, under a lease that expires in January 2029 and includes options for expansion and early termination in 2025.

ITEM 3. LEGAL PROCEEDINGS

We are not currently a party to any material legal proceedings. We may from time to time become involved in legal proceedings arising in the ordinary course of business.

ITEM 4. MINE SAFETY DISCLOSURE

Not applicable.

EXECUTIVE OFFICERS OF THE REGISTRANT

Our executive officers and their ages and positions as of February 23, 2018, are as set forth below:

Name	Age	Position
Bonnie H. Anderson	59	Chairman and Chief Executive Officer
Keith S. Kennedy	48	Chief Financial Officer
Christopher M. Hall	49	President and Chief Operating Officer

Bonnie H. Anderson has served as our Chief Executive Officer and as a member of our board of directors since February 2008. From August 2013 to February 2017, she also served as our President, and in December 2016, she was appointed Chairman of our board of directors. Prior to joining us, Ms. Anderson was an independent strategic consultant from April 2006 to January 2008, including as a strategic consultant for us from July 2007 to January 2008. Ms. Anderson was a Vice President at Beckman Coulter, Inc., a manufacturer of biomedical testing instrument systems, tests and supplies, from September 2000 to March 2006. She currently serves as a director of Castle Biosciences, Inc. and as a trustee emeritus of the Keck Graduate Institute of Applied Life Sciences. Ms. Anderson holds a B.S. in Medical Technology from Indiana University of Pennsylvania.

Keith S. Kennedy, has served as our Chief Financial Officer since December 2016. Prior to joining us, Mr. Kennedy provided strategic counsel and consulting services from his consulting practice from September 2015 to November 2016, including advisory services to Pennant Park Investment Advisors. From February 2012 to August 2015, Mr. Kennedy served at MCG Capital Corporation, a commercial finance company, as President and Chief Executive Officer from April 2014 to August 2015, as Chief Financial Officer, Chief Accounting Officer and Treasurer from May 2012 to March 2014 and as Executive Vice President and Managing Director from February 2012 to May 2012. From May 2011 to February 2012, Mr. Kennedy served as an Executive-in-Residence at Arlington Capital Partners. From October 2009 to April 2011, Mr. Kennedy pursued principal investing, including serving as Executive-in-Residence at J.I. Kislak, Inc from March 2010 to September 2010. From October 2002 to September 2009, Mr. Kennedy served as Managing Director at GE Capital, Inc. From September 1999 to October 2002, Mr. Kennedy worked as a manager of transaction services at Ernst & Young LLP. Mr. Kennedy served in the U.S. Air Force from December 1992 to December 1996. Mr. Kennedy holds a B.S. in Accounting with high distinction from Indiana University and holds an M.B.A. from the College of William & Mary. Mr. Kennedy is a chartered financial analyst and certified public accountant.

Christopher M. Hall has served as our Chief Operating Officer since September 2014 and in February 2017, he was appointed as our President. Mr. Hall served as our Chief Commercial Officer from March 2010 to September 2014. Prior to joining us, Mr. Hall served as Chief Business Officer of Celera Corporation, a diagnostics company focusing on personalized disease management, from October 2008 to February 2010. From August 2002 to February 2010, Mr. Hall served in various executive and senior positions at Berkeley HeartLab, Inc., a cardiovascular disease management company that was acquired by Celera in October 2007, including Chief Clinical Operations Officer and Vice President of Marketing. Mr. Hall holds a B.A. in Economics and Political Science from DePauw University and an M.B.A. from Harvard Business School.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information

Our common stock commenced trading on the Nasdaq Global Market under the symbol "VCYT" on October 30, 2013. Prior to that time, there was no public market for our common stock. The following table sets forth the high and low sales prices of our common stock, on a per share basis, as reported by the Nasdaq Global Market, for the periods indicated:

	High	Low
2017		
Fourth Quarter	$ 9.80	$ 5.75
Third Quarter	$ 8.90	$ 7.50
Second Quarter	$ 9.30	$ 7.15
First Quarter	$ 9.71	$ 7.03
2016		
Fourth Quarter	$ 8.45	$ 5.82
Third Quarter	$ 7.96	$ 4.83
Second Quarter	$ 5.98	$ 4.81
First Quarter	$ 7.31	$ 4.21

As of February 23, 2018, there were approximately 27 holders of record of our common stock. However, because many of our outstanding shares are held in accounts with brokers and other institutions, we have more beneficial owners.

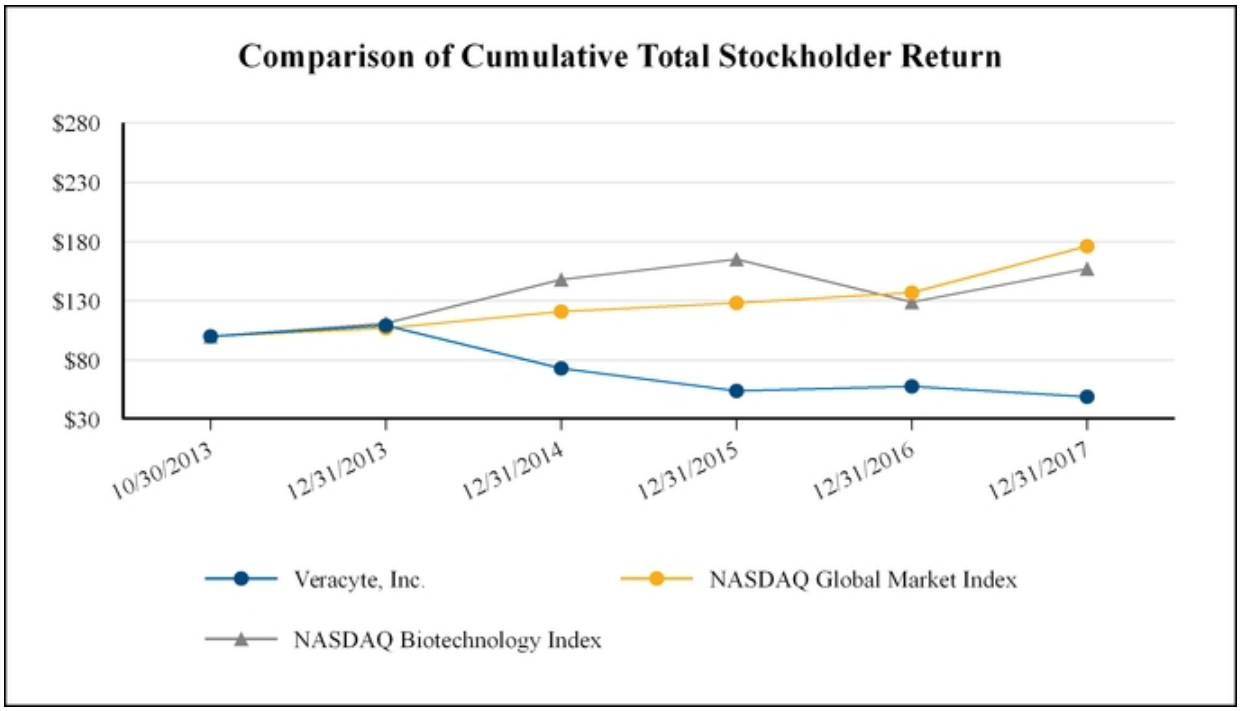
Dividend Policy

We have never declared or paid dividends on our common stock and do not expect to pay dividends on our common stock for the foreseeable future. Instead, we anticipate that all of our earnings in the foreseeable future will be used for the operation and growth of our business. Any future determination to declare dividends will be subject to the discretion of our board of directors and will depend on various factors, including applicable laws, our results of operations, financial condition, future prospects, and any other factors deemed relevant by our board of directors. In addition, the terms of our credit agreement restrict our ability to pay dividends on our common stock, and we may also enter into credit agreements or other borrowing arrangements in the future that will further restrict our ability to declare or pay dividends on our common stock.

Stock Performance Graph

The following information is not deemed to be "soliciting material" or to be "filed" with the Securities and Exchange Commission or subject to Regulation 14A or 14C under the Securities Exchange Act of 1934, as amended, or the "Exchange Act", or to the liabilities of Section 18 of the Exchange Act, and will not be deemed to be incorporated by reference into any filing under the Securities Act or the Exchange Act, except to the extent we specifically incorporate it by reference into such a filing.

The graph below shows the cumulative total stockholder return (change in stock price plus reinvested dividends) assuming the investment of $100.00 on the date specified in each of our common stock, the Nasdaq Global Market Index, and the Nasdaq Biotechnology Index for the period commencing on October 30, 2013 (the first day of trading of our common stock) and ending on December 31, 2017. The comparisons in the table are required by the SEC and are not intended to forecast or be indicative of future performance of our common stock.



	October 30, 2013	December 31, 2013	December 31, 2014	December 31, 2015	December 31, 2016	December 31, 2017
Veracyte, Inc.	$ 100.00	$ 109.00	$ 73.00	$ 54.00	$ 58.00	$ 49.00
Nasdaq Global Market Index	$ 100.00	$ 107.00	$ 121.00	$ 128.00	$ 137.00	$ 176.00
Nasdaq Biotechnology Index	$ 100.00	$ 111.00	$ 148.00	$ 165.00	$ 129.00	$ 157.00

ITEM 6. SELECTED FINANCIAL DATA

The information set forth below should be read in conjunction with "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" and our audited financial statements and related notes included elsewhere in this annual report. The selected balance sheet data at December 31, 2017 and 2016 and the selected statements of operations data for each of the years ended December 31, 2017, 2016 and 2015 have been derived from our audited financial statements that are included elsewhere in this report. The selected balance sheet data at December 31, 2015, 2014 and 2013 and the selected statements of operations data for the years ended December 31, 2014 and 2013 have been derived from our audited financial statements not included in this report. The financial data are historical and are not necessarily indicative of results to be expected in any future period (in thousands, except share and per share data and genomic classifiers reported):

	Year Ended December 31,				
	2017	2016	2015	2014	2013
Statements of Operations Data:					
Revenue	$ 71,953	$ 65,085	$ 49,503	$ 38,190	$ 21,884
Operating expenses:					
Cost of revenue[(1)]	28,195	25,462	21,497	16,606	12,607
Research and development[(1)]	13,881	15,324	12,796	9,804	7,810
Selling and marketing[(1)]	32,260	28,248	25,293	21,932	12,540
General and administrative[(1)]	23,088	23,787	22,583	18,854	12,100
Intangible asset amortization	1,067	1,067	800	—	—
Total operating expenses[(1)]	98,491	93,888	82,969	67,196	45,057
Loss from operations	(26,538)	(28,803)	(33,466)	(29,006)	(23,173)
Interest expense	(4,941)	(2,757)	(378)	(439)	(233)
Other income (expense), net	476	202	140	72	(2,174)
Net loss and comprehensive loss	$ (31,003)	$ (31,358)	$ (33,704)	$ (29,373)	$ (25,580)
Net loss per common share, basic and diluted	$ (0.91)	$ (1.09)	$ (1.30)	$ (1.36)	$ (6.15)
Shares used in computing net loss per common share, basic and diluted	33,925,617	28,830,472	25,994,193	21,639,374	4,158,664
Other Operating Data:					
Reported genomic test volume	26,026	23,237	19,421	14,061	9,716

(1) Includes employee stock-based compensation as follows:

	Year Ended December 31,				
	2017	2016	2015	2014	2013
Cost of revenue	$ 133	$ 126	$ 100	$ 51	$ 34
Research and development	1,495	1,322	1,178	790	250
Selling and marketing	1,899	1,594	1,326	707	169
General and administrative	3,090	3,336	2,998	2,000	794
Total stock-based compensation	$ 6,617	$ 6,378	$ 5,602	$ 3,548	$ 1,247

Balance Sheets Data:

	As of December 31,				
	2017	2016	2015	2014	2013
Cash and cash equivalents	$ 33,891	$ 59,219	$ 39,084	$ 35,014	$ 71,220
Working capital	41,900	62,093	33,192	26,203	61,019
Total assets	78,669	101,034	75,247	64,839	79,630
Accumulated deficit	(211,087)	(180,084)	(148,726)	(115,022)	(85,649)
Total stockholders' equity	37,225	59,581	51,252	41,374	56,443

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

The following discussion and analysis of financial condition and results of operations should be read together with the financial statements and the related notes included in Item 8 of Part II of this Annual Report on Form 10-K. This discussion and analysis contains certain forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from those discussed below. Factors that could cause or contribute to such differences include, but are not limited to, those identified below and those set forth under the section entitled "Risk Factors" in Item 1A, and other documents we file with the Securities and Exchange Commission. Historical results are not necessarily indicative of future results.

Overview

We are a leading genomic diagnostics company that provides trustworthy and actionable answers that fundamentally improve patient care when current diagnostic test results are uncertain. Our products uniquely combine genomic technology, clinical science and machine learning to provide answers that give physicians and patients a clear path forward without the need for risky, costly surgery that is often unnecessary.

The role of genomic information in medical practice is evolving rapidly and has affected the diagnosis of disease as well as treatment decisions. Over the past decade, molecular diagnostic tests that analyze genomic material from tissue samples have emerged as an important complement to evaluations performed by pathologists. Information at the molecular level enables one to understand and identify more fully the makeup and specific subtype of disease to improve diagnosis. In many cases, the genomic information derived from these samples can help guide treatment decisions as part of the standard of care.

We deploy machine learning algorithms, which leverage comprehensive RNA expression data, to develop tests for the improvement of diagnostic clarity for cancer and other diseases. In our thyroid and lung indications, diagnosis can be ambiguous in 15-70% of patients undergoing diagnostic evaluation depending on the indication. Our tests provide clarity of diagnosis that can in turn guide treatment decisions in 40-70% of those cases, eliminating costly, risky surgeries and other unnecessary medical procedures, improving the lives of patients and saving the healthcare system money.

Since our founding in 2008, we have commercialized three genomic classifiers that we believe are transforming diagnostics: the next-generation Afirma Genomic Sequencing Classifier, or GSC, and its predecessor, the Afirma Gene Expression Classifier, or GEC, for thyroid cancer; the Percepta Bronchial Genomic Classifier for lung cancer; and the Envisia Genomic Classifier for idiopathic pulmonary fibrosis, or IPF. Collectively, we believe these three tests address a $2 billion global market opportunity.

The published evidence supporting our tests demonstrates the robustness of our science and clinical studies. Patients and physicians can access our full list of publications on our website. Over 30 clinical studies covering our products have been published, including two landmark clinical validation papers published in The New England Journal of Medicine for the Afirma and Percepta classifiers, respectively. We continue to build upon our extensive library of clinical evidence. We also expect to continue expanding our offerings in thyroid cancer, lung cancer and interstitial lung diseases such as IPF, as well as other indications that we believe will benefit from our technology and approach.

We believe our focus on developing clinically useful tests that change patient care is enabling us to set new standards in genomic test reimbursement. Our Afirma genomic classifier is now covered by every major health plan in the United States, covering more than 275 million people, for use in thyroid cancer diagnosis. It is available as an in-network, contracted offering to more than 175 million people nationwide through their insurers. Our second commercial product, the Percepta classifier, is the first genomic test to gain Medicare coverage for improved lung cancer screening and diagnosis, making it a covered benefit for more than 60 million people.

Fourth Quarter and Full-Year 2017 Financial Results

For the three- and twelve-month periods ended December 31, 2017, compared to the prior year:

Revenue was $19.6 million and $72.0 million, respectively, an increase of 7% and 11%;

- *Genomic Volume* was 7,153 and 26,026 reported tests, respectively, an increase of 13% and 12%;
- *Gross Margin* was 60% and 61%, respectively, a decline of 4% and flat to prior year;

- *Operating Expenses, Excluding Cost of Revenue*, were $17.9 million and $70.3 million, respectively, an increase of 16% and 3%;
- *Net Loss and Comprehensive Loss* was ($8.4) million and ($31.0) million, respectively, an increase of 92% and decrease of 1%;
- *Basic and Diluted Net Loss Per Common Share* was ($0.24) and ($0.91), respectively, an increase of 71% and decrease of 17%;
- *Cash Burn* was $6.1 million and $25.2 million, respectively, an increase of 31% and improvement of 22%; and
- *Cash and Cash Equivalents* was $33.9 million at December 31, 2017.

To supplement our financial statements prepared in accordance with U. S. GAAP, we monitor and consider cash burn, which is a non-U.S. GAAP financial measure. This non-U.S. GAAP financial measure is not based on any standardized methodology prescribed by U.S. GAAP and is not necessarily comparable to similarly-titled measures presented by other companies. We define cash burn as net cash used in operating activities plus net capital expenditures, such as net purchases of property and equipment. We believe cash burn to be a liquidity measure that provides useful information to management and investors about the amount of cash consumed by the operations of the business, including our purchases of property and equipment. A limitation of using this non-U.S. GAAP measure is that cash burn does not represent the total change in cash and cash equivalents for the period because it excludes cash provided by or used for other investing and financing activities. We account for this limitation by providing information about our capital expenditures and other investing and financing activities in the statements of cash flows in our financial statements and by presenting cash flows from investing and financing activities in our reconciliation of cash burn. In addition, it is important to note that other companies, including companies in our industry, may not use cash burn, may calculate cash burn in a different manner than we do or may use other financial measures to evaluate their performance, all of which could reduce the usefulness of cash burn as a comparative measure.

Because of these limitations, cash burn should not be considered in isolation from, or as a substitute for, financial information prepared in accordance with U.S. GAAP. The reconciliation of cash burn to net cash used in operating activities is provided in the table below (in thousands of dollars):

	Three Months Ended December 31,		Year Ended December 31,	
	2017	2016	2017	2016
Net cash used in operating activities	$ (5,816)	$ (4,232)	$ (23,915)	$ (27,982)
Plus purchases of property and equipment	(300)	(450)	(1,755)	(4,210)
Less proceeds from the sale of property and equipment	—	—	440	—
Cash burn	$ (6,116)	$ (4,682)	$ (25,230)	$ (32,192)
Net cash used in investing activities	$ (300)	$ (450)	$ (1,195)	$ (4,212)
Net cash (used in) provided by financing activities	$ (1,188)	$ 32,202	$ (218)	$ 52,329

2017 and Recent Business Highlights

Commercial Expansion:

- In January 2018, achieved the milestone of 100,000 Afirma tests performed to date, with an estimated 40,000 unnecessary thyroid surgeries saved, penetrating the market by an estimated 35%.
- Launched the next-generation Afirma Genomic Sequencing Classifier on our RNA sequencing platform, further improving the test's performance and expanding our comprehensive biorepository of genomic content to fuel future product innovation.
- Announced upcoming launch of the Afirma Xpression Atlas platform, providing physicians the most comprehensive genomic data available in a single assay to further inform surgery and treatment decisions for patients with suspected thyroid cancer.
- During the year, structured and significantly expanded our multi-product sales team by over 40% during the year, in preparation for driving Percepta growth in 2018.

Reimbursement Progress:

- Expanded the number of covered lives for Afirma by 70 million during 2017, bringing the total number of patients covered for the genomic test through their health insurers to over 275 million, including nearly 120 million Blues plan members, as of December 31, 2017.
- Expanded the number of contracted lives for Afirma by nearly 20 million during 2017, making the test an in-network covered benefit for over 175 million people, including nearly 45 million Blues plan members, as of December 31, 2017.
- Gained final Medicare coverage for Percepta through the MolDX program in May 2017, making it the first genomic test to be covered for use in lung cancer screening and diagnosis. The test is now available as a covered benefit for the nearly 60 million Medicare enrollees nationwide.
- Achieved Medicare pricing stability and transparency for Afirma through the Protecting Access to Medicare Act of 2014 (PAMA) implementation in January 2018, resulting in an increased reimbursement rate of approximately $3,600 per test from approximately $3,200 per test.
- Completed the package of clinical evidence needed to target Medicare coverage for the Envisia Genomic Classifier in 2018.

Evidence Development:

- Afirma - Presented 14 Afirma abstracts at four medical conferences, including four clinical utility studies demonstrating the long-term durability of a benign genomic test result during up to six years of follow-up and seven studies showing the enhanced Afirma GSC’s ability to identify significantly more benign thyroid nodules than the original Afirma test.
- Percepta - Presented three studies at major medical meetings demonstrating the clinical utility of the Percepta classifier and published a study in the *Journal of Thoracic Oncology* demonstrating the genomic test’s cost-effectiveness.
- Envisia - Presented five abstracts at leading pulmonology meetings and published three studies demonstrating the clinical validity, clinical utility and/or analytical verification of the Envisia classifier.

Factors Affecting Our Performance

Reported Genomic Test Volume

Our performance depends on the number of genomic tests that we perform and report as completed in our CLIA laboratories. Factors impacting the number of tests that we report as completed include, but are not limited to:

- the number of samples that we receive that meet the medical indication for each test performed;
- the quantity and quality of the sample received;
- receipt of the necessary documentation, such as physician order and patient consent, required to perform, bill and collect for our tests;
- the patient's ability to pay or provide necessary insurance coverage for the tests performed;
- the time it takes us to perform our tests and report the results;
- the seasonality inherent in our business, such as the impact of work days per period, timing of industry conferences and the timing of when patient deductibles are exceeded, which also impacts the reimbursement we receive from insurers; and
- our ability to obtain prior authorization or meet other requirements instituted by payers, benefit managers, or regulators necessary to be paid for our tests.

We generate substantially all our revenue from genomic testing services, including the rendering of a cytopathology diagnosis as part of the Afirma solution. We do not accrue revenue for tests performed and reported that do not meet our accrual criteria. For the Afirma classifier, we do not accrue revenue for approximately 5%-10% of the tests that we perform and report as complete due principally to insufficient RNA from which to render a result and tests performed for which we do not reasonably expect to be paid. Revenue from Percepta has not been significant for the year ended December 31, 2017. For tests that we perform that do not meet our accrual criteria, we recognize revenue upon cash receipt.

Continued Adoption of and Reimbursement for our Products

Revenue growth depends on our ability to secure coverage decisions, achieve broader reimbursement at increased levels from third-party payers, expand our base of prescribing physicians and increase our penetration in existing accounts. Because some payers consider our products experimental and investigational, we may not receive payment for tests and payments we receive may not be at acceptable levels. We expect our revenue growth will increase as more payers make a positive coverage decision and as payers enter into contracts with us, which should enhance our accrued revenue and cash collections. To drive increased adoption of our products, we increased our sales force over the last several years, along with increasing our marketing efforts. Our sales team is structured to sell all of our products; we do not maintain a separate sales force for each product. If we are unable to expand the base of prescribing physicians and penetration within these accounts at an acceptable rate, or if we are not able to execute our strategy for increasing reimbursement, we may not be able to effectively increase our revenue. We expect to continue to see pressure from payers to limit the utilization of tests, generally, and we believe more payers are deploying cost containment tactics, such as pre-authorization and employing laboratory benefit managers to reduce utilization rates.

How We Recognize Revenue

We recognize revenue on an accrual basis when we are able to make a reasonable estimate of reimbursement at the time delivery is complete. In the first period in which revenue is accrued for a particular payer or test, there generally is a one-time increase in revenue. Until we have contracts with payers or can reasonably estimate the amount that will ultimately be received, we recognize the related revenue on the cash basis. As we commercialize new products, we will need to be able to make a reasonable estimate of the amount that will ultimately be received from each payer for each new product offering prior to being able to recognize the related revenue on an accrual basis. Because the timing and amount of cash payments received from payers as well as one-time increases in revenue from newly accrued payers are difficult to predict, we expect that our revenue may fluctuate significantly in any given quarter.

As of December 31, 2017, cumulative amounts billed at list price for tests processed which were not recognized as revenue upon delivery of a patient report because our accrual revenue recognition criteria were not met and for which we have not collected cash or written off as uncollectible, totaled approximately $159.3 million.

As of December 31, 2016, cumulative amounts billed at list price for tests processed which were not recognized as revenue upon delivery of a patient report because our accrual revenue recognition criteria were not met and for which we have not collected cash or written off as uncollectible, totaled $161.2 million. Of this amount, we recognized revenue of approximately $2.5 million for the year ended December 31, 2017, respectively, when cash was received.

Generally, cash we receive is collected within 12 months of the date the test is billed. We cannot provide any assurance as to when, if ever, or to what extent any of these amounts will be collected. Notwithstanding our efforts to obtain payment for these tests, payers may deny our claims, in whole or in part, and we may never receive revenue from previously performed but unpaid tests. Revenue from these tests, if any, may not be equal to the billed amount due to a number of factors, including differences in reimbursement rates, the amounts of patient co-payments and co-insurance, the existence of secondary payers and claims denials. Finally, when we increase our list price, it will increase the cumulative amounts billed. In addition, payer contracts generally include the right of offset and payers may offset payments prior to resolving disputes over tests performed.

Generally, we calculate the average Afirma genomic classifier reimbursement from all payers, whether they are on the cash or an accrual basis, for tests that are on average a year old, since it can take a significant period of time to collect from some payers. Except in situations where we believe the rate we reasonably expect to collect to vary due to a coverage decision, contract, more recent reimbursement data or evidence to the contrary, we use an average of reimbursement for tests provided over four quarters as it reduces the effects of temporary volatility and seasonal effects. Thus, the average reimbursement per Afirma genomic classifier represents the total cash collected to date against Afirma genomic classifier tests performed during the relevant period divided by the number of these tests performed during that same period.

The average Afirma genomic classifier reimbursement rate will change over time due to a number of factors, including medical coverage decisions by payers, the effects of contracts signed with payers, changes in allowed amounts by payers, our ability to successfully win appeals for payment, and our ability to collect cash payments from third-party payers and individual patients. Historical average reimbursement is not necessarily indicative of future average reimbursement. Our average reimbursement per GEC was approximately $2,500 for the quarter ended December 31, 2017 as compared with approximately

$2,300 for the same period in 2016. The average quarterly reimbursement ranged from $2,300 to $2,500 in 2017 as compared to a range of $2,100 to $2,300 in 2016.

From the fourth quarter of 2016 to the fourth quarter of 2017, we accrued between $1.7 million and $2.6 million in revenue per quarter from providing cytopathology services associated with our Afirma solution.

We incur expense for tests in the period in which the test is conducted and recognize revenue for tests in the period in which our revenue recognition criteria are met. Accordingly, any revenue that we recognize as a result of cash collection in respect of previously performed but unpaid tests will favorably impact our liquidity and results of operations in future periods.

Development of Additional Products

We currently rely on sales of Afirma to generate most of our revenue. In May 2014, we commercially launched our Afirma Malignancy Classifiers, which we believe enhances our Afirma Thyroid FNA Analysis as a comprehensive way to manage thyroid nodule patients and serve our current base of prescribing physicians. The Malignancy Classifiers call out BRAF mutations and Medullary Thyroid Cancer (MTC). Knowledge that a patient has a BRAF mutation or has MTC may change the extent of surgery done and is valuable pre-operatively. We are also pursuing development or acquisition of products for additional diseases to increase and diversify our revenue. We launched the Percepta classifier in April 2015. Additionally, in October 2016, we introduced a solution for diagnosing interstitial lung disease, our Envisia Genomic Classifier, that will offer an alternative to surgery by developing a genomic signature to classify samples collected through less invasive bronchoscopy techniques. We also recently commercialized the Afirma Genomic Sequencing Classifier, or GSC, the next generation test for thyroid cancer. The Afirma GSC uniquely combines RNA sequencing and machine learning to leverage more enriched, previously undetectable genomic information. We expect to continue to invest heavily in research and development in order to expand the capabilities of our solutions and to develop additional products. Our success in developing or acquiring new products will be important in our efforts to grow our business by expanding the potential market for our products and diversifying our sources of revenue.

Timing of Our Research and Development Expenses

We deploy state-of-the-art and costly genomic technologies in our biomarker discovery experiments, and our spending on these technologies may vary substantially from quarter to quarter. We also spend a significant amount to secure clinical samples that can be used in discovery and product development as well as clinical validation studies. The timing of these research and development activities is difficult to predict, as is the timing of sample acquisitions. If a substantial number of clinical samples are acquired in a given quarter or if a high-cost experiment is conducted in one quarter versus the next, the timing of these expenses can affect our financial results. We conduct clinical studies to validate our new products as well as on-going clinical studies to further the published evidence to support our commercialized tests. As these studies are initiated, start-up costs for each site can be significant and concentrated in a specific quarter. Spending on research and development, for both experiments and studies, may vary significantly by quarter depending on the timing of these various expenses.

Impact of Genzyme Co-promotion Agreement

From January 2012 through September 9, 2016, we were party to a Co-Promotion Agreement with Genzyme to market the Afirma solution in the United States. The agreement required that we pay a certain percentage of our cash receipts from the sale of the Afirma solution to Genzyme, which percentage decreased over time. We received a $10.0 million upfront co-promotion fee from Genzyme under the Co-Promotion Agreement, which we deferred and amortized over the life of the agreement until the agreement was terminated effective September 9, 2016. The final payments totaling $4.0 million under the Agreement were made in September 2016.

Under an ex-U.S. agreement with Genzyme, we agreed to pay Genzyme 25% of net revenue from the sale of the Afirma solution in Brazil and Singapore over a five-year period commencing January 1, 2015. Effective July 6, 2017, the agreement was terminated and payments made under this agreement for all periods presented were not material.

Financial Overview

Revenue

Through December 31, 2017, we have derived most of our revenue from the sale of Afirma. To date, Afirma has been delivered primarily to physicians in the United States. We generally invoice third-party payers upon delivery of a patient report to the prescribing physician. As such, we take the assignment of benefits and the risk of cash collection from the third-party payer and individual patients. Third-party payers in excess of 10% of revenue and their related revenue as a percentage of total revenue were as follows:

	Year Ended December 31,		
	2017	2016	2015
Medicare	26%	27%	26%
UnitedHealthcare	14%	12%	14%
	40%	39%	40%

For tests performed, we recognize the related revenue upon delivery of a patient report to the prescribing physician based on the amount that we expect to ultimately receive. We determine the amount we expect to ultimately receive based on a per payer, per contract or agreement basis. Upon ultimate collection, the amount received where reimbursement was estimated is compared to previous estimates and the amount accrued is adjusted accordingly. In other situations, where we cannot reasonably estimate the amount that will be ultimately received, we recognize revenue on the cash basis. Our ability to increase our revenue will depend on our ability to penetrate the market, obtain positive coverage policies from additional third-party payers, obtain reimbursement and/or enter into contracts with additional third-party payers for our current and new tests, and increase reimbursement rates for tests performed. Finally, should we recognize revenue on an accrual basis and later determine the judgments underlying estimated reimbursement change, our financial results could be negatively impacted in future quarters.

Cost of Revenue

The components of our cost of revenue are laboratory expenses, sample collection expenses, compensation expense, license fees and royalties, depreciation and amortization, other expenses such as equipment and laboratory supplies, and allocations of facility and information technology expenses. Costs associated with performing tests are recorded as the test is processed regardless of whether and when revenue is recognized with respect to that test. As a result, our cost of revenue as a percentage of revenue may vary significantly from period to period because we do not recognize all revenue in the period in which the associated costs are incurred. We expect cost of revenue in absolute dollars to increase as the number of tests we perform increases. However, we expect that the cost per test will decrease over time due to leveraging fixed costs, efficiencies we may gain as test volume increases and from automation, process efficiencies and other cost reductions. As we introduce new tests, initially our cost of revenue will be high as we expect to run suboptimal batch sizes, run quality control batches, test batches, registry samples and generally incur costs that may suppress or reduce gross margins. This will increase disproportionately our aggregate cost of revenue until we achieve efficiencies in processing these new tests.

Research and Development

Research and development expenses include expenses incurred to develop our technology, collect clinical samples and conduct clinical studies to develop and support our products. These expenses consist of compensation expenses, direct research and development expenses such as prototype materials, laboratory supplies and costs associated with setting up and conducting clinical studies at domestic and international sites, professional fees, depreciation and amortization, other miscellaneous expenses and allocation of facility and information technology expenses. We expense all research and development costs in the periods in which they are incurred. We expect to incur significant research and development expenses as we continue to invest in research and development activities related to developing additional products and evaluating various platforms. We incurred research and development expenses in 2016 for the development and launch of Envisia and for the continued development and support of the Afirma and Percepta tests. We incurred research and development expenses on ongoing evidence development for our Afirma, Percepta and Envisia classifiers in 2017, and expect to continue doing so in 2018.

Selling and Marketing

Selling and marketing expenses consist of compensation expenses, direct marketing expenses, professional fees, other expenses such as travel and communications costs and allocation of facility and information technology expenses. In addition, co-promotion fees paid to Genzyme, net of amortization of the upfront fee received, are included in selling and marketing expenses through the September 9, 2016 termination date of our U.S. co-promotion agreement. We have expanded our internal sales force

and increased our marketing spending as we transitioned out of the Genzyme relationship, with these costs offset by the elimination of the co-promotion fee. We have also incurred increased selling and marketing expense as a result of investments in our lung product portfolio and believe total selling and marketing expenses will continue to increase as we launch and promote our new tests.

General and Administrative

General and administrative expenses include compensation expenses for certain executive officers and administrative, billing and client service personnel, professional fees for legal and audit services, occupancy costs, depreciation and amortization, and other expenses such as information technology and miscellaneous expenses offset by allocation of facility and information technology expenses to other functions. For the year ended December 31, 2017, approximately 62% of the headcount classified as general and administrative encompass our billing and customer care teams. We expect general and administrative expenses to continue to increase as we build our general and administration infrastructure and to stabilize thereafter.

Intangible Asset Amortization

Intangible asset amortization began in April 2015 when we launched the Percepta test. The related finite-lived intangible asset with a cost of $16.0 million is being amortized over 15 years, using the straight-line method.

Interest Expense

Interest expense is attributable to our borrowings under debt agreements and capital leases as well as costs associated with pre-paying our prior credit agreement in November 2017.

Other Income, Net

Other income, net consists primarily of sublease rental income and interest income received from payers and from our cash equivalents.

Critical Accounting Policies and Estimates

Our management's discussion and analysis of our financial condition and results of operations is based on our audited financial statements, which have been prepared in accordance with United States generally accepted accounting principles, or U.S. GAAP. The preparation of the financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported revenue generated and expenses incurred during the reporting periods. Our estimates are based on our historical experience and on various other factors that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions and any such differences may be material. We believe that the accounting policies discussed below are critical to understanding our historical and future performance, as these policies relate to the more significant areas involving management's judgments and estimates.

Revenue Recognition

We recognize revenue in accordance with the provisions of Accounting Standards Codification (“ASC”) 954-605, *Health Care Entities — Revenue Recognition*. Our revenue is generated from the provision of diagnostic services. The service is completed upon the delivery of test results to the prescribing physician, at which time we bill for the service. We recognize revenue related to billings for tests delivered on an accrual basis when amounts that will ultimately be realized can be reasonably estimated. The estimates of amounts that will ultimately be realized require significant judgment by management. Until a contract has been negotiated with a commercial payer or governmental program, our tests may or may not be covered by these entities’ existing reimbursement policies. In addition, patients do not enter into direct agreements with us that commit them to pay any portion of the cost of the tests in the event that their insurance declines to reimburse us. We may bill the patient directly for these amounts in the form of co-payments and co-insurance in accordance with their insurance carrier and health plans. In the absence of contracted reimbursement coverage or the ability to reasonably estimate the amount that will ultimately be realized for our services, revenue is recognized on the cash basis.

We use judgment in determining if we are able to make a reasonable estimate of what will be ultimately realized. We also use judgment in estimating the amounts we expect to collect by payer. Our judgments will continue to evolve in the future as we continue to gain payment experience.

Finite-lived Intangible Assets

Finite-lived intangible assets consist of intangible assets reclassified from indefinite-lived intangible assets following the launch of Percepta in April 2015. We amortize finite-lived intangible assets using the straight-line method, over their estimated useful life. The estimated useful life of 15 years was used for the intangible asset related to Percepta based on management's estimate of product life, product life of other diagnostic tests and patent life. We test this finite-lived intangible asset for impairment when events or circumstances indicate a reduction in the fair value below its carrying amount. There was no impairment recognized during the years ended December 31, 2017, 2016, or 2015.

Goodwill

Goodwill, derived from our acquisition of Allegro Diagnostics Corp. in September 2014, is reviewed for impairment on an annual basis or more frequently if events or circumstances indicate that it may be impaired. Our goodwill evaluation is based on both qualitative and quantitative assessments regarding the fair value of goodwill relative to its carrying value. We have determined that we operate in a single segment and have a single reporting unit associated with the development and commercialization of diagnostic products. In the event we determine that it is more likely than not the carrying value of the reporting unit is higher than its fair value, quantitative testing is performed comparing recorded values to estimated fair values. If impairment is present, the impairment loss is measured as the excess of the recorded goodwill over its implied fair value. We perform our annual evaluation of goodwill during the fourth quarter of each fiscal year. There was no impairment recognized during the years ended December 31, 2017, 2016, or 2015.

Stock-based Compensation

We recognize stock-based compensation expense for only those shares underlying stock options and restricted stock units that we expect to vest on a straight-line basis over the requisite service period of the award. We estimate the fair value of stock options using a Black-Scholes option-pricing model, which requires the input of highly subjective assumptions, including the option's expected term and stock price volatility. In addition, judgment is also required in estimating the number of stock-based awards that are expected to be forfeited. Forfeitures are estimated based on historical experience at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. The assumptions used in calculating the fair value of share-based payment awards represent management's best estimates, but these estimates involve inherent uncertainties and the application of management's judgment. As a result, if factors change and we use different assumptions, our stock-based compensation expense could be materially different in the future.

Results of Operations

Comparison of the Years Ended December 31, 2017, 2016 and 2015 (in thousands of dollars, except percentages)

	Year Ended December 31,						
	2017	Change	%	2016	Change	%	2015
Revenue	$ 71,953	$ 6,868	11 %	$ 65,085	$ 15,582	31%	$ 49,503
Operating expense:							
Cost of revenue	28,195	2,733	11 %	25,462	3,965	18%	21,497
Research and development	13,881	(1,443)	(9)%	15,324	2,528	20%	12,796
Selling and marketing	32,260	4,012	14 %	28,248	2,955	12%	25,293
General and administrative	23,088	(699)	(3)%	23,787	1,204	5%	22,583
Intangible asset amortization	1,067	—	— %	1,067	267	33%	800
Total operating expenses	98,491	4,603	5 %	93,888	10,919	13%	82,969
Loss from operations	(26,538)	2,265	8 %	(28,803)	4,663	14%	(33,466)
Interest expense	(4,941)	(2,184)	79 %	(2,757)	(2,379)	629%	(378)
Other income, net	476	274	136 %	202	62	44%	140
Net loss and comprehensive loss	$ (31,003)	$ 355	1 %	$ (31,358)	$ 2,346	7%	$ (33,704)
Other Operating Data:							
Genomic classifiers reported	26,026	2,789	12 %	23,237	3,816	20%	19,421

Revenue

Revenue increased $6.9 million, or 11%, for the year ended December 31, 2017 compared to 2016. Revenue recognized on the accrual basis increased $22.2 million, or 47%, for the year ended December 31, 2017 compared to 2016, due to increased adoption of Afirma and increases in the accrual rates for Afirma from higher historical reimbursement from payers. Commencing from the quarter ended September 30, 2016, we had sufficient information developed to support reasonable estimates of the amount of revenue to accrue upon test delivery for a number of payers that had been previously recognized on the cash basis and as a result, we accrued revenue for substantially all of our test volume. The cash basis revenue, which is from unaccrued tests delivered prior to July 1, 2016, decreased $15.3 million, or 85% for the year ended December 31, 2017 as compared to 2016.

Revenue increased $15.6 million, or 31%, for the year ended December 31, 2016 compared to 2015. Revenue recognized on the accrual basis increased $20.1 million, or 74%, for the year ended December 31, 2016 compared to 2015, due to increased adoption of Afirma and accruing substantially all of our test volume commencing from the quarter ended September 30, 2016. The cash basis revenue, which is from unaccrued tests delivered prior to July 1, 2016, decreased $4.5 million, or 20% for the year ended December 31, 2016 as compared to 2015.

Revenue recognized on the accrual basis and the cash basis for the years ended December 31, 2017, 2016 and 2015 was as follows (in thousands of dollars, except percentages):

	Year Ended December 31,					
	2017	%	2016	%	2015	%
Revenue recognized on the accrual basis	$ 69,274	96%	$ 47,099	72%	$ 27,043	55%
Revenue recognized on the cash basis	2,679	4%	17,986	28%	22,460	45%
Total	$ 71,953	100%	$ 65,085	100%	$ 49,503	100%

Cost of revenue

Comparison of the years ended December 31, 2017, 2016 and 2015 was as follows (in thousands of dollars, except percentages):

	Year Ended December 31,						
	2017	Change	%	2016	Change	%	2015
Cost of revenue:							
Laboratory expense	$ 14,469	$ 1,637	13 %	$ 12,832	$ 1,846	17 %	$ 10,986
Sample collection expense	3,465	7	— %	3,458	334	11 %	3,124
Compensation expense	3,807	612	19 %	3,195	667	26 %	2,528
License fees and royalties	2,757	(13)	— %	2,770	711	35 %	2,059
Depreciation and amortization	666	127	24 %	539	(184)	(25)%	723
Other expenses	1,243	308	33 %	935	110	13 %	825
Allocations	1,788	55	3 %	1,733	481	38 %	1,252
Total	$ 28,195	$ 2,733	11 %	$ 25,462	$ 3,965	18 %	$ 21,497

Cost of revenue increased $2.7 million, or 11%, for the year ended December 31, 2017, compared to 2016. The increase in laboratory costs was due to increased Afirma classifier test volume and costs associated with the next generation Afirma GSC, partially offset by a decrease in cytopathology fees related to a decrease in FNA samples processed and lower cytopathology fees from an amended and restated agreement with Thyroid Cytopathology Partners, or TCP, effective October 16, 2017. The increase in compensation expense was associated with the mix shift to relatively more Afirma classifier versus cytopathology tests, as more labor hours are incurred on Afirma classifier tests compared to cytopathology tests and at a higher average employee cost, as well as an average laboratory headcount increase of 14%, partially offset by lower incentive compensation. The increase in depreciation and amortization was due to higher depreciation from more assets being placed into service. The increase in other expenses was primarily due to equipment maintenance costs and laboratory supplies.

Cost of revenue increased $4.0 million, or 18%, for the year ended December 31, 2016, compared to 2015. The increase in laboratory costs was due to increased Afirma classifier test volume and an increase in cytopathology fees to TCP related to an increase in FNA samples processed. The increase in sample collection costs was primarily related to increased volume of samples. The increase in compensation expense was associated with the mix shift to relatively more Afirma classifier versus cytopathology tests, as more labor hours are incurred on Afirma classifier tests compared to cytopathology tests and at a higher average employee cost, as well as an average laboratory headcount increase of 19%. The increase in license fee and royalties was due higher royalties paid to a supplier from increased Afirma classifier test volume. The decrease in depreciation and amortization was due to certain assets becoming fully depreciated in 2016. The increase in other expenses was primarily due to consulting expenses.

Research and development

Comparison of the years ended December 31, 2017, 2016 and 2015 was as follows (in thousands of dollars, except percentages):

	Year Ended December 31,						
	2017	Change	%	2016	Change	%	2015
Research and development expense:							
Compensation expense	$ 7,967	$ 114	1 %	$ 7,853	$ 1,125	17 %	$ 6,728
Direct research and development expense	2,657	(1,545)	(37)%	4,202	796	23 %	3,406
Professional fees	940	107	13 %	833	(53)	(6)%	886
Depreciation and amortization	447	43	11 %	404	206	104 %	198
Other expenses	587	(53)	(8)%	640	151	31 %	489
Allocations	1,283	(109)	(8)%	1,392	303	28 %	1,089
Total	$ 13,881	$ (1,443)	(9)%	$ 15,324	$ 2,528	20 %	$ 12,796

Research and development expense decreased $1.4 million, or 9%, for the year ended December 31, 2017 compared to 2016. The increase in compensation expense was primarily due to an 8% increase in average headcount, offset by lower incentive compensation. The decrease in direct research and development expense was due to a lesser amount of materials purchased for research and development experiments following the completion of several major projects. The increase in professional fees was due to higher consulting and recruiting expenses.

Research and development expense increased $2.5 million, or 20%, for the year ended December 31, 2016 compared to 2015. The increase in compensation expense was primarily due to an 8% increase in average headcount partially including an increase in senior level positions, and increased accrued bonuses as a result of increased bonus targets and performance. The increase in direct research and development expense was due to materials purchased for research and development experiments. The increase in depreciation and amortization was due to higher depreciation from more assets being placed into service. The increase in other expenses was due to equipment and support costs.

Selling and marketing

Comparison of the years ended December 31, 2017, 2016 and 2015 was as follows (in thousands of dollars, except percentages):

	Year Ended December 31,						
	2017	Change	%	2016	Change	%	2015
Selling and marketing expense:							
Compensation expense	$ 18,146	$ 3,749	26 %	$ 14,397	$ 2,905	25 %	$ 11,492
Direct marketing expense	5,645	2,688	91 %	2,957	(175)	(6)%	3,132
Genzyme co-promotion expense, net	3	(5,100)	(100)%	5,103	(264)	(5)%	5,367
Professional fees	2,106	1,523	261 %	583	(471)	(45)%	1,054
Other expenses	4,526	1,069	31 %	3,457	910	36 %	2,547
Allocations	1,834	83	5 %	1,751	50	3 %	1,701
Total	$ 32,260	$ 4,012	14 %	$ 28,248	$ 2,955	12 %	$ 25,293

Selling and marketing expense increased $4.0 million, or 14%, for the year ended December 31, 2017 compared to 2016. The increase in compensation expense was due to a 24% increase in average headcount mainly from increases of our sales personnel due to the termination of the Genzyme co-promotion agreement in 2016. The increase in direct marketing expense was due to corporate rebranding expenses, trade shows and marketing costs. The decrease in Genzyme co-promotion expense, net, reflects the termination of the Genzyme co-promotion agreement. The increase in professional fees was due to higher consulting expenses, primarily for a growth assessment study. The increase in other expenses was primarily due to travel and communication costs associated with the 24% increase in average headcount.

Selling and marketing expense increased $3.0 million, or 12%, for the year ended December 31, 2016 compared to 2015. The increase in compensation expense was due to a 30% increase in average headcount mainly from increases of our sales personnel due to the termination of the Genzyme co-promotion agreement in 2016. The decrease in Genzyme co-promotion expense, net, reflects the termination of the Genzyme co-promotion agreement. The decrease in professional fees was due to a decline in consulting expenses. The increase in other expenses was primarily due to travel and communication costs associated with the 30% increase in average headcount.

General and administrative

Comparison of the years ended December 31, 2017, 2016 and 2015 was as follows (in thousands of dollars, except percentages):

	Year Ended December 31,						
	2017	**Change**	%	**2016**	**Change**	%	**2015**
General and administrative expense:							
Compensation expense	$ 14,828	$ (870)	(6)%	$ 15,698	$ 2,574	20 %	$ 13,124
Professional fees	5,934	93	2 %	5,841	(1,706)	(23)%	7,547
Occupancy costs	2,219	(251)	(10)%	2,470	(156)	(6)%	2,626
Depreciation and amortization	1,662	161	11 %	1,501	968	182 %	533
Other expenses	3,350	216	7 %	3,134	339	12 %	2,795
Allocations	(4,905)	(48)	1 %	(4,857)	(815)	20 %	(4,042)
Total	$ 23,088	$ (699)	(3)%	$ 23,787	$ 1,204	5 %	$ 22,583

General and administrative expense decreased $699,000, or 3%, for the year ended December 31, 2017 compared to 2016. The decrease in compensation expense was due to lower incentive compensation, partially offset by an 8% increase in average headcount for the year ended December 31, 2017 compared to 2016. The increase in professional fees expense was mainly due to higher legal expenses offset by lower accounting and consulting expenses. The decrease in occupancy costs was largely due to incurring facilities expenses for the three months ended March 31, 2016 for our current South San Francisco facility, as well as our previous space, for which the lease ended in March 2016. The increase in depreciation and amortization was due to higher depreciation from more assets being placed into service. The increase in other expenses was due to higher conference and meeting expenses.

General and administrative expense increased $1.2 million, or 5%, for the year ended December 31, 2016 compared to 2015. The increase in compensation expense was primarily due to a 9% increase in average headcount in 2016 compared to 2015, increased accrued bonuses as a result of increased bonus targets and performance, and higher employee separation costs. The decrease in professional fees expense was mainly due to lower accounting and consulting expenses. The decrease in occupancy expense was largely due to incurring more months of facilities expenses in 2015 for our current South San Francisco facility and our previous space, for which the lease ended in March 2016. The increase in depreciation and amortization was due to higher depreciation and amortization expense from our new South San Francisco facility. The increase in other expenses was due to higher miscellaneous expenses.

Interest expense

Interest expense increased $2.2 million for the year ended December 31, 2017 compared to 2016, primarily due to a $1.5 million prepayment penalty upon terminating our credit agreement with Visium Healthcare Partners, LP, or Visium, in November 2017, and the related write-off of unamortized debt issuance costs. Interest expense increased $2.4 million for the year ended December 31, 2016 compared to 2015, primarily due to higher interest rates associated with the Visium credit agreement compared to credit agreement that was in place in 2015.

Other income, net

Other income, net, increased $274,000 for the year ended December 31, 2017 compared to 2016, primarily due to higher interest income received. Other income (expense), net, increased $62,000 for the year ended December 31, 2016 compared to 2015, primarily due to higher interest income received.

Liquidity and Capital Resources

From inception through December 31, 2017, we have been financed primarily through net proceeds from the sale of our equity securities and borrowings under our credit facilities. We have incurred net losses since our inception. For the years ended December 31, 2017, 2016 and 2015, we had net losses of $31.0 million, $31.4 million and $33.7 million, respectively, and we expect to incur additional losses in 2018 and in future years. As of December 31, 2017, we had an accumulated deficit of $211.1 million. We may never achieve revenue sufficient to offset our expenses.

We believe our existing cash and cash equivalents of $33.9 million as of December 31, 2017 and our revenue during the 12 months following February 27, 2018 will be sufficient to meet our anticipated cash requirements for at least the 12 months following February 27, 2018. We expect that our near- and longer-term liquidity requirements will continue to consist of costs to run our laboratories, research and development expenses, selling and marketing expenses, general and administrative expenses, working capital, costs to service our loan and security agreement, capital expenditures and general corporate expenses associated with the growth of our business. However, we may also use cash to acquire or invest in complementary businesses, technologies, services or products that would change our cash requirements. If we are not able to generate revenue to finance our cash requirements, we will need to finance future cash needs primarily through public or private equity offerings, debt financings, borrowings or strategic collaborations or licensing arrangements. If we raise funds by issuing equity securities, dilution to stockholders could result. Any equity securities issued also may provide for rights, preferences or privileges senior to those of holders of our common stock. The terms of debt securities issued or borrowings could impose significant restrictions on our operations. The incurrence of additional indebtedness or the issuance of certain equity securities could result in increased fixed payment obligations and could also result in restrictive covenants, such as limitations on our ability to incur additional debt or issue additional equity, limitations on our ability to acquire or license intellectual property rights, restrictions on our cash pursuant to the terms of our loan and security agreement and other operating restrictions that could adversely affect our ability to conduct our business. Our current loan and security agreement imposes restrictions on our operations, increases our fixed payment obligations and has restrictive covenants. In addition, the issuance of additional equity securities by us, or the possibility of such issuance, may cause the market price of our common stock to decline. In the event that we enter into collaborations or licensing arrangements to raise capital, we may be required to accept unfavorable terms. These agreements may require that we relinquish or license to a third-party on unfavorable terms our rights to technologies or product candidates that we otherwise would seek to develop or commercialize ourselves, or reserve certain opportunities for future potential arrangements when we might be able to achieve more favorable terms. If we are not able to secure additional funding when needed, we may have to delay, reduce the scope of or eliminate one or more research and development programs or selling and marketing initiatives, or forgo potential acquisitions or investments. In addition, we may have to work with a partner on one or more of our products or development programs, which could lower the economic value of those programs to us.

Loan and Security Agreement

On November 3, 2017, we entered into a loan and security agreement, or the "Loan and Security Agreement", with Silicon Valley Bank. The Loan and Security Agreement allows us to borrow up to $35.0 million, with a $25.0 million term loan (the “Term Loan”) and a revolving line of credit of up to $10.0 million, or the "Revolving Line of Credit", subject to, with respect to the Revolving Line of Credit, a borrowing base of 85% of eligible accounts receivable. The Term Loan was advanced upon the closing of the Loan and Security Agreement. Borrowings under the Loan and Security Agreement mature in October 2022. The Term Loan bears interest at a variable rate equal to (i) the thirty-day U.S. London Interbank Offer Rate, or LIBOR, plus (ii) 4.20%, with a minimum rate of 5.43% per annum. Principal amounts outstanding under the Revolving Line of Credit bear interest at a variable rate equal to (i) LIBOR plus (ii) 3.50%, with a minimum rate of 4.70% per annum. We are also required to pay an annual facility fee on the Revolving Line of Credit of $25,000.

We may prepay the outstanding principal amount under the Term Loan plus accrued and unpaid interest and, if the Term Loan is repaid in full, a prepayment premium. The prepayment premium will equal (i) $750,000, if the prepayment is made on or before November 3, 2018, (ii) $500,000, if the prepayment is made after November 3, 2018 and on or prior to November 3, 2019 and (iii) $250,000, if the prepayment is made after November 3, 2019. In addition, a final payment on the Term Loan in the amount of $1.2 million is due upon the earlier of the maturity date of the Term Loan or its payment in full.

The Loan and Security Agreement contains customary representations, warranties, and events of default such as a material adverse change in our business, operations or financial conditions, as well as affirmative and negative covenants. The negative covenants include, among other provisions, covenants that limit or restrict our ability to incur liens, make investments, incur indebtedness, merge with or acquire other entities, dispose of assets, make dividends or other distributions to holders of our equity interests, engage in any new line of business, or enter into certain transactions with affiliates, in each case subject to certain exceptions.

The Loan and Security Agreement also requires us to comply with certain financial covenants, including achieving certain revenue levels tested quarterly on a trailing twelve-month basis. However, failure to maintain the revenue levels will not be considered a default if we maintain liquidity of at least $40.0 million.

Our obligations under the Loan and Security Agreement are secured by substantially all of our assets (excluding intellectual property), subject to certain customary exceptions.

Cash Flows

The following table summarizes our cash flows for the years ended December 31, 2017, 2016 and 2015 (in thousands of dollars):

	Years Ended December 31,		
	2017	2016	2015
Cash used in operating activities	$ (23,915)	$ (27,982)	$ (26,965)
Cash used in investing activities	(1,195)	(4,212)	(6,698)
Cash provided by (used in) financing activities	(218)	52,329	37,733

Cash Flows from Operating Activities

Cash used in operating activities for the year ended December 31, 2017 was $23.9 million. The net loss of $31.0 million includes non-cash charges of $6.6 million of stock-based compensation expense and $3.8 million of depreciation and amortization, which includes $1.1 million of intangible asset amortization. It also includes a $1.5 million prepayment penalty for exiting our previous credit agreement which is a financing cash flow, and the amortization and write-off of $0.5 million of debt issuance costs. Cash used as a result of changes in operating assets and liabilities of $5.4 million was primarily due to an increase in accounts receivable of $4.0 million, an increase in supplies inventory of $1.8 million and a decrease in accrued liabilities and deferred rent of $1.2 million, partially offset by an increase in accounts payable of $1.7 million.

Cash used in operating activities for the year ended December 31, 2016 was $28.0 million. The net loss of $31.4 million includes non-cash charges of $0.9 million in amortization of the deferred fee received from Genzyme, offset primarily by $6.4 million of stock-based compensation expense, $3.5 million of depreciation and amortization, which includes $1.1 million of intangible asset amortization, $0.4 million from conversion of accrued interest to long-term debt and $0.3 million in interest and prepayment penalty relating to the repayment of our borrowings under a prior loan arrangement. Cash used as a result of changes in operating assets and liabilities of $6.4 million is primarily due to an increase in accounts receivable of $5.3 million and a decrease in accounts payable of $1.4 million.

Cash used in operating activities for the year ended December 31, 2015 was $27.0 million. The net loss of $33.7 million includes non-cash charges of $1.9 million in amortization of the deferred fee received from Genzyme, offset primarily by $5.6 million of stock-based compensation expense, $2.3 million of depreciation and amortization, which includes $0.8 million intangible asset amortization following the launch of Percepta in April 2015, $0.1 million in amortization of debt discount and issuance costs and debt balloon interest expense, and $0.1 million of bad debt expense. The increase in net operating assets of $0.5 million was due to an increase of $0.9 million in deferred rent, accounts payable and accrued liabilities primarily from deferred rent from the lease for our new South San Francisco facility, offset by $0.4 million from an increase in accounts receivable due to increases in Afirma adoption and additional payers meeting our revenue recognition criteria for accrual.

Cash Flows from Investing Activities

Cash used in investing activities for the year ended December 31, 2017 was $1.2 million, mainly comprising $1.8 million for the acquisition of property and equipment, partially offset by $0.4 million of proceeds from the sale of property and equipment.

Cash used in investing activities for year ended December 31, 2016 was $4.2 million for the acquisition of property and equipment, primarily for the build out of office space and the laboratory for our South San Francisco facility.

Cash used in investing activities for the year ended December 31, 2015 was $6.7 million. The investing activities for the year ended December 31, 2015 consisted of $6.2 million used for the acquisition of property and equipment, primarily for the build out of office space and laboratory for our South San Francisco facility and $0.5 million used as collateral for an irrevocable standby letter of credit as security for the facility.

Cash Flows from Financing Activities

Cash used in financing activities for the year ended December 31, 2017 was $0.2 million, consisting of a $25.4 million payment of the principal on the Visium credit agreement, $1.5 million payment for the prepayment premium for terminating the Visium credit agreement and $0.3 million of capital lease payments, partially offset by $24.9 million of net proceeds from our new loan and security agreement, $1.9 million in proceeds from the purchase of stock under our ESPP and exercise of options to purchase our common stock.

Cash provided by financing activities for the year ended December 31, 2016 was $52.3 million. The financing activities for the year ended December 31, 2016 consisted of $31.9 million of net proceeds from the issuance of common stock in a public offering, $24.5 million of net proceeds from a draw-down under the Visium credit agreement and $1.2 million from the exercise of options to purchase our common stock and purchases under the employee stock purchase plan, partially offset by the payment of $5.0 million for the remaining principal balance and a $0.3 million of end-of-term payment and prepayment penalty related to a prior loan agreement that we repaid on March 30, 2016.

Cash provided by financing activities for the year ended December 31, 2015 was $37.7 million, consisting of $37.3 million of net proceeds from the sale of our common stock in a private placement and $0.7 million of cash received from the exercise of options to purchase our common stock, offset by $0.2 million spent on deferred stock offering costs.

Contractual Obligations

The following table summarizes certain contractual obligations as of December 31, 2017 (in thousands of dollars):

	Payments Due by Period				
	Fiscal Year 2018	Fiscal Year 2019 to 2020	Fiscal Year 2021 to 2022	Fiscal Year 2023 and Beyond	Total
Operating lease obligations	$ 2,121	$ 4,559	$ 4,873	$ 9,384	$ 20,937
Long-term debt obligations (1)	1,415	12,256	17,294	—	30,965
Supplies purchase commitments	3,011	2,186	1,913	—	7,110
Capital lease obligation	317	317	—	—	634
Total	$ 6,864	$ 19,318	$ 24,080	$ 9,384	$ 59,646

(1) Debt obligations include principal, estimate of variable rate interest and end-of-term debt obligation

In December 2016, we entered into a capital lease for equipment which expires in December 2019.

In April 2015, we signed a non-cancelable lease agreement for approximately 59,000 square feet to serve as our new headquarters and laboratory facility in South San Francisco. The lease began in June 2015 and expires in March 2026, and contains extension of lease term and expansion options.

In August 2017, we amended our lease of laboratory and office space in Austin, Texas which extended the expiration date to January 2029 and includes options for expansion and early termination in 2025.

Off-balance Sheet Arrangements

We have not entered into any off-balance sheet arrangements.

JOBS Act Accounting Election

We are an emerging growth company, as defined in the Jumpstart Our Business Startups Act of 2012, or the JOBS Act. Under the JOBS Act, emerging growth companies can delay adopting new or revised accounting standards issued subsequent to the enactment of the JOBS Act until such time as those standards apply to private companies. We have irrevocably elected not to avail ourselves of this exemption from new or revised accounting standards and, therefore, will be subject to the same new or revised accounting standards as other public companies that are not emerging growth companies.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board, or FASB, issued ASU 2014-09, *Revenue from Contracts with Customers* (Topic 606), to supersede nearly all existing revenue recognition guidance under U.S. GAAP. The core principle of ASU 2014-09 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration that is expected to be received for those goods or services. ASU 2014-09 defines a five-step process to achieve this core principle and, in doing so, it is possible more judgment and estimates may be required within the revenue recognition process than are required under existing U.S. GAAP. We will adopt the new revenue standard as of January 1, 2018 using the modified retrospective method. We have completed our assessment of the five steps of this ASU and believe that the adoption of this ASU will not result in a material cumulative catch-up adjustment under the modified retrospective method, or have a material impact on our financial position or results of operations.

In February 2016, the FASB issued ASU No. 2016-2, *Leases*. This ASU is aimed at making leasing activities more transparent and comparable, and requires substantially all leases be recognized by lessees on their balance sheet as a right-of-use asset and corresponding lease liability, including leases currently accounted for as operating leases. The ASU will be effective for interim and annual periods beginning after December 15, 2018. Entities are required to use a modified retrospective approach for leases that exist or are entered into after the beginning of the earliest comparative period in the financial statements. Full retrospective application is prohibited and early adoption is permitted. We are currently evaluating the potential effect of this standard on our financial statements.

In March 2016, the FASB issued ASU 2016-9, *Compensation - Stock Compensation*, related to the tax effects of share-based awards. The ASU requires that all the tax effects of share-based awards be recorded through the income statement, thereby simplifying the current guidance that requires excess tax benefits and certain excess tax deficiencies to be recorded in equity. This

ASU also permits an election for the impact of forfeitures on the recognition of expense for share-based payment awards where forfeitures can be estimated or recognized when they occur. This ASU is effective for interim and annual periods beginning after December 15, 2016. We adopted this ASU as of January 1, 2017 and elected to continue using its forfeiture estimation method for share-based payment awards. This ASU was adopted prospectively and the impact of adoption on our financial statements was not material.

In August 2016, the FASB issued ASU No. 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*, which provides specific guidance on cash flow classification issues, including classifying debt prepayment or debt extinguishment costs under financing activities in the statements of cash flows. The amendments in ASU 2016-15 are effective for interim and annual periods beginning after December 15, 2017. The ASU should be applied using a retrospective transition method, unless it is impracticable to do so for some of the issues. In such case, the amendments for those issues would be applied prospectively as of the earliest date practicable. Early adoption is permitted. We adopted this ASU retrospectively in the fourth quarter of 2017 and the impact of adoption on our financial statements was not material because prior period debt prepayment costs were immaterial and already included under financing activities in our statements of cash flows.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows - Restricted Cash.* This ASU requires that restricted cash and restricted cash equivalents be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The ASU will be effective for interim and annual periods beginning after December 15, 2017. We do not anticipate that the adoption of this ASU will have a significant impact on our financial statements.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to market risks in the ordinary course of our business. These risks primarily relate to interest rates. We had cash and cash equivalents of $33.9 million as of December 31, 2017 which consisted of bank deposits and money market funds. Such interest-bearing instruments carry a degree of risk; however, a hypothetical 10% change in interest rates during any of the periods presented would not have had a material impact on our financial statements.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Veracyte, Inc.
Index to Financial Statements

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders of Veracyte, Inc.

Opinion on the Financial Statements
We have audited the accompanying balance sheets of Veracyte, Inc. (the Company) as of December 31, 2017 and 2016, the related statements of operations and comprehensive loss, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2017, and the related notes (collectively referred to as the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2017 and 2016, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2017, in conformity with U.S. generally accepted accounting principles.

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

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

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

/s/ Ernst & Young LLP

We have served as the Company’s auditor since 2014.
Redwood City, California
February 27, 2018

VERACYTE, INC.

Balance Sheets

(in thousands, except share and per share amounts)

	As of December 31,	
	2017	2016
Assets		
Current assets:		
Cash and cash equivalents	$ 33,891	$ 59,219
Accounts receivable	12,716	8,756
Supplies inventory	5,324	3,475
Prepaid expenses and other current assets	1,997	2,057
Restricted cash	—	120
Total current assets	53,928	73,627
Property and equipment, net	9,688	11,480
Finite-lived intangible assets, net	13,067	14,133
Goodwill	1,057	1,057
Restricted cash	603	603
Other assets	326	134
Total assets	$ 78,669	$ 101,034
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 3,853	$ 2,424
Accrued liabilities	8,175	9,110
Total current liabilities	12,028	11,534
Long-term debt	24,938	24,918
Capital lease liability, net of current portion	308	599
Deferred rent, net of current portion	4,170	4,402
Total liabilities	41,444	41,453
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, $0.001 par value; 5,000,000 shares authorized, no shares issued and outstanding as of December 31, 2017 and 2016	—	—
Common stock, $0.001 par value; 125,000,000 shares authorized, 34,210,388 and 33,762,278 shares issued and outstanding as of December 31, 2017 and 2016, respectively	34	34
Additional paid-in capital	248,278	239,631
Accumulated deficit	(211,087)	(180,084)
Total stockholders' equity	37,225	59,581
Total liabilities and stockholders' equity	$ 78,669	$ 101,034

The accompanying notes are an integral part of these financial statements.

VERACYTE, INC.

Statements of Operations and Comprehensive Loss

(in thousands, except share and per share amounts)

	Year Ended December 31,		
	2017	**2016**	**2015**
Revenue	$ 71,953	$ 65,085	$ 49,503
Operating Expenses:			
Cost of revenue	28,195	25,462	21,497
Research and development	13,881	15,324	12,796
Selling and marketing	32,260	28,248	25,293
General and administrative	23,088	23,787	22,583
Intangible asset amortization	1,067	1,067	800
Total operating expenses	98,491	93,888	82,969
Loss from operations	(26,538)	(28,803)	(33,466)
Interest expense	(4,941)	(2,757)	(378)
Other income, net	476	202	140
Net loss and comprehensive loss	$ (31,003)	$ (31,358)	$ (33,704)
Net loss per common share, basic and diluted	$ (0.91)	$ (1.09)	$ (1.30)
Shares used to compute net loss per common share, basic and diluted	33,925,617	28,830,472	25,994,193

The accompanying notes are an integral part of these financial statements.

VERACYTE, INC.

Statements of Stockholders' Equity

(in thousands, except shares)

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount			
Balance at December 31, 2014	22,523,529	$ 23	$ 156,373	$ (115,022)	$ 41,374
Issuance of common stock on exercise of stock options	253,787	—	722	—	722
Sale of common stock in a private placement, net of issuance costs of $2,742	4,907,975	5	37,253	—	37,258
Stock-based compensation expense (employee)	—	—	5,302	—	5,302
Stock-based compensation expense (non-employee)	—	—	110	—	110
Stock-based compensation expense (ESPP)	—	—	190	—	190
Net loss and comprehensive loss	—	—	—	(33,704)	(33,704)
Balance at December 31, 2015	27,685,291	28	199,950	(148,726)	51,252
Issuance of common stock on exercise of stock options	212,740	—	538	—	538
Issuance of common stock under employee stock purchase plan (ESPP)	140,947	—	678	—	678
Sale of common stock in a public offering, net of issuance costs of $2,247	5,723,300	6	32,087		32,093
Stock-based compensation expense (employee)	—	—	6,046	—	6,046
Stock-based compensation expense (non-employee)	—	—	15	—	15
Stock-based compensation expense (ESPP)	—	—	317	—	317
Net loss and comprehensive loss	—	—	—	(31,358)	(31,358)
Balance at December 31, 2016	33,762,278	$ 34	$ 239,631	$ (180,084)	$ 59,581
Issuance of common stock on exercise of stock options and vesting of restricted stock units	295,059	—	1,374	—	1,374
Issuance of common stock under employee stock purchase plan (ESPP)	153,051	—	656	—	656
Stock-based compensation expense (employee)	—	—	6,352	—	6,352
Stock-based compensation expense (non-employee)	—	—	19	—	19
Stock-based compensation expense (ESPP)	—	—	246	—	246
Net loss and comprehensive loss	—	—	—	(31,003)	(31,003)
Balance at December 31, 2017	34,210,388	$ 34	$ 248,278	$ (211,087)	$ 37,225

The accompanying notes are an integral part of these financial statements.

VERACYTE, INC.

Statements of Cash Flows

(in thousands of dollars)

	Year Ended December 31,		
	2017	**2016**	**2015**
Operating activities			
Net loss	$ (31,003)	$ (31,358)	$ (33,704)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	3,841	3,511	2,254
Bad debt expense	—	68	105
Loss on disposal of property and equipment	12	12	—
Genzyme co-promotion fee amortization	—	(948)	(1,897)
Stock-based compensation	6,617	6,378	5,602
Conversion of accrued interest to long-term debt	—	385	—
Amortization and write-off of debt discount and issuance costs	472	173	46
Interest on end-of-term debt obligation and prepayment penalty	1,589	206	79
Changes in operating assets and liabilities:			
Accounts receivable	(3,960)	(5,321)	(558)
Supplies inventory	(1,849)	292	(71)
Prepaid expenses and current other assets	(7)	(415)	304
Other assets	(192)	25	(42)
Accounts payable	1,728	(1,441)	(3,546)
Accrued liabilities and deferred rent	(1,163)	451	4,463
Net cash used in operating activities	(23,915)	(27,982)	(26,965)
Investing activities			
Purchases of property and equipment	(1,755)	(4,210)	(6,165)
Proceeds from the sale of property and equipment	440	—	—
Change in restricted cash	120	(2)	(533)
Net cash used in investing activities	(1,195)	(4,212)	(6,698)
Financing activities			
Proceeds from the issuance of long-term debt, net of debt issuance costs	24,880	24,452	—
Proceeds from issuance of common stock in a private placement, net of issuance costs	—	—	37,258
Proceeds from issuance of common stock in a public offering, net of issuance costs	200	31,949	—
Payment of long-term debt	(25,385)	(5,000)	—
Payment of end-of-term debt obligation and prepayment penalty	(1,536)	(288)	—
Payment of deferred stock offering costs	—	—	(247)
Payment of capital lease liability	(274)	—	—
Proceeds from the exercise of common stock options and employee stock purchases	1,897	1,216	722
Net cash (used in) provided by financing activities	(218)	52,329	37,733
Net (decrease) increase in cash and cash equivalents	(25,328)	20,135	4,070
Cash and cash equivalents at beginning of year	59,219	39,084	35,014
Cash and cash equivalents at end of year	$ 33,891	$ 59,219	$ 39,084
Supplementary cash flow information of non-cash investing and financing activities:			
Net receivable for reimbursement of public offering issuance costs	$ —	$ 144	$ —
Purchases of property and equipment included in accounts payable and accrued liabilities	42	363	1,825
Supplementary cash flow information:			
Cash paid for interest on debt	2,718	2,149	278
Cash paid for tax	21	7	22

The accompanying notes are an integral part of these financial statements.

VERACYTE, INC.

Notes to Financial Statements

1. Organization and Description of Business

Veracyte, Inc. (“Veracyte” or the “Company”) was incorporated in the state of Delaware on August 15, 2006 as Calderome, Inc. Calderome operated as an incubator until early 2008. On March 4, 2008, the Company changed its name to Veracyte, Inc. The Company’s operations are based in South San Francisco, California and Austin, Texas, and it operates in one segment.

Veracyte is a genomic diagnostics company that resolves diagnostic uncertainty by uniquely combining genomic technology, clinical science and machine learning to provide diagnostic answers to physicians and patients.

Since the Company's founding in 2008, it has commercialized three products:

Afirma Thyroid FNA Analysis - Includes the next-generation Afirma Genomic Sequencing Classifier, or GSC, and its predecessor, the Afirma Gene Expression Classifier, or GEC that is used to identify patients with benign thyroid nodules among those with indeterminate cytopathology results in order to preserve the thyroid. The Afirma classifier was developed using machine learning that is based on ensemble methods in which multiple algorithms - each playing its own role - are used to interpret large amounts of ribonucleic acid ("RNA") sequencing genomic data and obtain a better predictive performance than any single algorithm on its own.

Percepta Bronchial Genomic Classifier - The 23-gene Percepta classifier improves lung cancer screening and diagnosis by increasing the diagnostic performance of bronchoscopies and identifying patients with lung nodules who are at low risk of cancer, without the need for more invasive procedures. The test analyzes genomic changes that occur in the epithelial cells lining the airways of current or former smokers to assess a patient’s risk of having lung cancer, without the need to test the often-hard-to-reach nodule directly.

Envisia Genomic Classifier - The Envisia classifier is designed to improve physicians’ ability to differentiate idiopathic pulmonary fibrosis, or IPF, from other interstitial lung diseases, or ILD, without the need for invasive and potentially risky surgery. The Envisia classifier uses machine learning coupled with powerful, deep RNA sequencing to detect the presence or absence of usual interstitial pneumonia, or UIP, a classic diagnostic pattern whose presence is essential for the diagnosis of IPF.

All of the Company's testing services are made available through its clinical reference laboratories located in South San Francisco, California and Austin, Texas, which are each certified under the Clinical Laboratory Improvement Amendments of 1988, or CLIA.

2. Summary of Significant Accounting Policies

Basis of Presentation

The Company's financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("U.S. GAAP"). The financial statements include the accounts of the Company and its former wholly-owned subsidiary, which was dissolved in June 2015. For periods prior to the subsidiary dissolution, all intercompany accounts and transactions were eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Significant items subject to such estimates include: revenue recognition; the useful lives of property and equipment; the recoverability of long-lived assets; the estimation of the fair value of intangible assets; stock options; income tax uncertainties, including a valuation allowance for deferred tax assets; and contingencies. The Company bases these estimates on historical and anticipated results, trends, and various other assumptions that the Company believes are reasonable under the circumstances, including assumptions as to future

2. Summary of Significant Accounting Policies (Continued)

events. These estimates form the basis for making judgments about the carrying values of assets and liabilities and recorded revenue and expenses that are not readily apparent from other sources. Actual results could differ from those estimates and assumptions.

Liquidity

The Company has incurred net losses since its inception and expects to incur additional losses in 2018 and in future years. As of December 31, 2017, the Company had an accumulated deficit of $211.1 million. The Company may never achieve revenue sufficient to offset its expenses. The Company believes its cash and cash equivalents of $33.9 million as of December 31, 2017 and its revenue from sales in 2018 will be sufficient to meet its anticipated cash requirements through at least March 2019.

In November 2017, the Company entered into a loan and security agreement and drew down a term loan advance of $25.0 million of which the entire amount was used to pay the outstanding balance of the Company's previous long-term debt as discussed in Note 7 - Debt.

If the Company is not able to generate revenue to finance its cash requirements, the Company will need to finance future cash needs primarily through public or private equity offerings, debt financings, borrowings or strategic collaborations or licensing arrangements. If the Company is not able to secure additional funding when needed, on acceptable terms, it may have to delay, reduce the scope of or eliminate one or more research and development programs or selling and marketing initiatives which may have a material adverse effect on the Company's business, results of operations, financial condition and/or its ability to fund its scheduled obligations on a timely basis or at all.

Concentrations of Credit Risk and Other Risks and Uncertainties

The majority of the Company's cash and cash equivalents are deposited with one major financial institution in the United States. Deposits in this institution may exceed the amount of insurance provided on such deposits. The Company has not experienced any losses on its deposits of cash and cash equivalents.

Several of the components of the Company's sample collection kit and test reagents are obtained from single-source suppliers. If these single-source suppliers fail to satisfy the Company's requirements on a timely basis, it could suffer delays in being able to deliver its diagnostic solutions, a possible loss of revenue, or incur higher costs, any of which could adversely affect its operating results.

The Company is also subject to credit risk from its accounts receivable related to its sales. The Company does not perform evaluations of customers' financial condition and does not require collateral.

Through December 31, 2017, most of the Company's revenue have been derived from the sale of Afirma. To date, Afirma has been delivered primarily to physicians in the United States. The Company's third-party payers in excess of 10% of revenue and their related revenue as a percentage of total revenue were as follows:

	Year Ended December 31,		
	2017	2016	2015
Medicare	26%	27%	26%
UnitedHealthcare	14%	12%	14%
	40%	39%	40%

The Company's significant third-party payers in excess of 10% of accounts receivable and their related accounts receivable balance as a percentage of total accounts receivable were as follows:

	December 31,	
	2017	2016
Medicare	22%	18%

2. Summary of Significant Accounting Policies (Continued)

Cash Equivalents

Cash equivalents consist of short-term, highly liquid investments with original maturities of three months or less from the date of purchase. Cash equivalents consist of amounts invested in a money market account primarily consisting of U.S. Treasury reserves.

Restricted Cash

The Company had deposits of $120,000 included in current assets as of December 31, 2016, pledged for corporate cards. There was no such restricted amount as of December 31, 2017. The Company also had deposits of $603,000 included in long-term assets as of December 31, 2017 and December 31, 2016, restricted from withdrawal and held by a bank in the form of collateral for an irrevocable standby letter of credit held as security for the lease of the Company's South San Francisco facility.

Supplies Inventory

Supplies inventory consists of test reagents and other consumables primarily used in the sample collection kits and in cytopathology and genomic classifier test processing, and are valued at the lower of cost or market value. Cost is determined using actual costs on a first-in, first-out basis.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and amortization. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally between three and five years. Leasehold improvements are amortized using the straight-line method over the shorter of the estimated useful life of the asset or the term of the lease. Maintenance and repairs are charged to expense as incurred, and improvements and betterments are capitalized. When assets are retired or otherwise disposed of, the cost and accumulated depreciation are removed from the balance sheet and any resulting gain or loss is reflected in the statements of operations and comprehensive loss in the period realized.

Finite-lived Intangible Assets

Finite-lived intangible assets consists of intangible assets reclassified from indefinite-lived intangible assets, following the launch of Percepta in April 2015. The Company amortizes finite-lived intangible assets using the straight-line method over their estimated useful life. The estimated useful life of 15 years was used for the intangible asset related to the Percepta test based on management's estimate of product life, product life of other diagnostic tests and patent life. The Company tests this finite-lived intangible asset for impairment when events or circumstances indicate a reduction in the fair value below its carrying amount. There was no impairment for the years ended December 31, 2017, 2016 or 2015.

Goodwill

Goodwill, derived from the Company's acquisition of Allegro Diagnostics Corp. in September 2014, is reviewed for impairment on an annual basis or more frequently if events or circumstances indicate that it may be impaired. The Company's goodwill evaluation is based on both qualitative and quantitative assessments regarding the fair value of goodwill relative to its carrying value. The Company has determined that it operates in a single segment and has a single reporting unit associated with the development and commercialization of diagnostic products. In the event the Company determines that it is more likely than not the carrying value of the reporting unit is higher than its fair value, quantitative testing is performed comparing recorded values to estimated fair values. If impairment is present, the impairment loss is measured as the excess of the recorded goodwill over its implied fair value. The Company performs its annual evaluation of goodwill during the fourth quarter of each fiscal year. There was no impairment for the years ended December 31, 2017, 2016 or 2015.

Fair Value of Financial Instruments

VERACYTE, INC.

Notes to Financial Statements (Continued)

2. Summary of Significant Accounting Policies (Continued)

The carrying amounts of certain financial instruments including cash and cash equivalents, accounts receivable, prepaid expenses and other current assets, accounts payable and accrued liabilities approximate fair value due to their relatively short maturities.

See Note 5, "Fair Value Measurements" for further information on the fair value of the Company's financial instruments.

Revenue Recognition

The Company recognizes revenue in accordance with the provision of ASC 954-605, *Health Care Entities—Revenue Recognition* ("ASC 954"). The Company's revenue is generated from the provision of diagnostic services. The service is completed upon the delivery of test results to the prescribing physician, at which time the Company bills for the service. The Company recognizes revenue related to billings for tests delivered on an accrual basis when amounts that will ultimately be realized can be reasonably estimated. The estimates of amounts that will ultimately be realized requires significant judgment by management. Until a contract has been negotiated with a commercial payer or governmental program, the Company's tests may or may not be covered by these entities' existing reimbursement policies. In addition, patients do not enter into direct agreements with the Company that commit them to pay any portion of the cost of the tests in the event that their insurance declines to reimburse the Company.

The Company may bill the patient directly for these amounts in the form of co-payments and co-insurance in accordance with their insurance carrier and health plans. In the absence of contracted reimbursement or the ability to estimate the amount that will ultimately be realized for the Company's services, revenue is recognized on the cash basis.

Revenue recognized for the years ended December 31, 2017, 2016 and 2015 was as follows (in thousands of dollars):

	Year Ended December 31,					
	2017		2016		2015	
Revenue recognized on the accrual basis	$ 69,274	96%	$ 47,099	72%	$ 27,043	55%
Revenue recognized on the cash basis	2,679	4%	17,986	28%	22,460	45%
Total	$ 71,953	100%	$ 65,085	100%	$ 49,503	100%

Prior to July 1, 2016, the Company believed it did not have a consistent enough payment history to accrue a significant portion of its Afirma tests delivered to customers and, as noted above, recognized revenue on the cash basis for such tests. The Company has been analyzing the amounts received for tests performed since commercialization and during the quarter ended September 30, 2016, sufficient information developed to support a reasonable estimate of the amount of revenue to accrue upon test delivery for a number of payers that had been previously recognized on the cash basis. In determining the amount to accrue for a particular test, the Company considered factors such as payer coverage, whether there is a reimbursement contract between the payer and the Company, timeliness of payment, payment as a percentage of agreed upon rate (if applicable), amount paid per test and any current developments or changes that could impact reimbursement. As a result, the Company recognized $3.5 million of incremental revenue during the quarter ended September 30, 2016 upon test delivery that previously would not have been recognized until cash was received. Tests performed prior to July 1, 2016 that did not meet the Company's accrual criteria at the time of delivery will continue to be recognized as revenue on the cash basis. However, the Company expects the amount of revenue to be recognized on the cash basis for Afirma to decline in future periods since subsequent to September 2016 relatively few tests were performed for which a reasonable estimate of revenue to accrue was not made at the time of delivery.

Cost of Revenue

The components of our cost of revenue are laboratory expenses, sample collection expenses, compensation expense, license fees and royalties, depreciation and amortization, other expenses such as equipment and laboratory supplies, and allocations of facility and information technology expenses. Costs associated with performing tests are expensed as the test is processed regardless of whether and when revenue is recognized with respect to that test.

Research and Development

VERACYTE, INC.

Notes to Financial Statements (Continued)

2. Summary of Significant Accounting Policies (Continued)

Research and development expenses include expenses incurred to develop our technology, collect clinical samples and conduct clinical studies to develop and support our products. These expenses consist of compensation expenses, direct research and development expenses such as prototype materials, laboratory supplies and costs associated with setting up and conducting clinical studies at domestic and international sites, professional fees, depreciation and amortization, other miscellaneous expenses and allocation of facility and information technology expenses. We expense all research and development costs in the periods in which they are incurred.

Income Taxes

The Company accounts for income taxes under the liability method. Under this method, deferred tax assets and liabilities are determined based on the difference between the financial statement and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amounts expected to be realized.

The Company assesses all material positions taken in any income tax return, including all significant uncertain positions, in all tax years that are still subject to assessment or challenge by relevant taxing authorities. The Company's assessment of an uncertain tax position begins with the initial determination of the position's sustainability and is measured at the largest amount of benefit that is more-likely-than-not of being realized upon ultimate settlement. As of each balance sheet date, unresolved uncertain tax positions must be reassessed, and the Company will determine whether (i) the factors underlying the sustainability assertion have changed and (ii) the amount of the recognized tax benefit is still appropriate. The recognition and measurement of tax benefits requires significant judgment. Judgments concerning the recognition and measurement of a tax benefit may change as new information becomes available.

Stock-based Compensation

Stock-based compensation expense for equity instruments issued to employees is measured based on the grant-date fair value of the awards. The fair value of each employee stock option is estimated on the date of grant using the Black-Scholes option-pricing model. The Company recognizes compensation costs on a straight-line basis for all employee stock-based compensation awards that are expected to vest over the requisite service period of the awards, which is generally the awards' vesting period. Forfeitures are required to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates.

Equity awards issued to non-employees are valued using the Black-Scholes option-pricing model and are subject to re-measurement as the underlying equity awards vest.

Net Loss per Common Share

Basic net loss per common share is calculated by dividing net loss attributable to common stockholders by the weighted-average number of common shares outstanding during the period, without consideration of common stock equivalents. Diluted net loss per common share is computed by dividing net loss attributable to common stockholders by the weighted-average number of common share equivalents outstanding for the period determined using the treasury stock method. Potentially dilutive securities consisting of options to purchase common stock, restricted stock units and shares subject to purchase under our employee stock purchase plan are considered to be common stock equivalents and were excluded from the calculation of diluted net loss per common share because their effect would be anti-dilutive for all periods presented.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board, or FASB, issued ASU 2014-09, *Revenue from Contracts with Customers* (Topic 606), to supersede nearly all existing revenue recognition guidance under U.S. GAAP. The core principle of ASU 2014-09 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration that is expected to be received for those goods or services. ASU 2014-09 defines a five-step process to achieve this core principle and, in doing so, it is possible more judgment and estimates may be required within the revenue recognition process than are required under existing U.S. GAAP. The Company will adopt the new revenue standard as of January 1, 2018 using the modified retrospective method. The Company has completed its assessment of the five steps of this ASU and believes

VERACYTE, INC.

Notes to Financial Statements (Continued)

2. Summary of Significant Accounting Policies (Continued)

that the adoption of this ASU will not result in a material cumulative catch-up adjustment under the modified retrospective method, or have a material impact on the Company's financial position or results of operations.

In February 2016, the FASB issued ASU No. 2016-2, *Leases*. This ASU is aimed at making leasing activities more transparent and comparable, and requires substantially all leases be recognized by lessees on their balance sheet as a right-of-use asset and corresponding lease liability, including leases currently accounted for as operating leases. The ASU will be effective for interim and annual periods beginning after December 15, 2018. Entities are required to use a modified retrospective approach for leases that exist or are entered into after the beginning of the earliest comparative period in the financial statements. Full retrospective application is prohibited and early adoption is permitted. The Company is currently evaluating the potential effect of this standard on its financial statements.

In March 2016, the FASB issued ASU 2016-9, *Compensation - Stock Compensation*, related to the tax effects of share-based awards. The ASU requires that all the tax effects of share-based awards be recorded through the income statement, thereby simplifying the current guidance that requires excess tax benefits and certain excess tax deficiencies to be recorded in equity. This ASU also permits an election for the impact of forfeitures on the recognition of expense for share-based payment awards where forfeitures can be estimated or recognized when they occur. This ASU was effective for interim and annual periods beginning after December 15, 2016. The Company adopted this ASU as of January 1, 2017 and elected to continue using its forfeiture estimation method for share-based payment awards. This ASU was adopted prospectively and the impact of adoption on the Company's financial statements was not material.

In August 2016, the FASB issued ASU No. 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*, provides specific guidance on cash flow classification issues, including classifying debt prepayment or debt extinguishment costs under financing activities in the statements of cash flows. The amendments in ASU 2016-15 are effective for interim and annual periods beginning after December 15, 2017. The ASU should be applied using a retrospective transition method, unless it is impracticable to do so for some of the issues. In such case, the amendments for those issues would be applied prospectively as of the earliest date practicable. Early adoption is permitted. This ASU was adopted retrospectively and the impact of adoption on the Company's financial statements was not material because prior period debt prepayment costs were immaterial and already included under financing activities in the statements of cash flows.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows - Restricted Cash.* This ASU requires that restricted cash and restricted cash equivalents be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The ASU will be effective for interim and annual periods beginning after December 15, 2017. The Company does not anticipate that the adoption of this ASU will have a significant impact on its financial statements.

3. Net Loss Per Share

The following outstanding common stock equivalents have been excluded from diluted net loss per common share for the years ended December 31, 2017, 2016 and 2015 because their inclusion would be anti-dilutive:

	Year Ended December 31,		
	2017	**2016**	**2015**
Shares of common stock subject to outstanding options	6,163,734	5,093,454	4,086,640
Employee stock purchase plan	34,559	36,651	15,561
Restricted stock units	63,425	25,000	—
Total common stock equivalents	6,261,718	5,155,105	4,102,201

4. Balance Sheet Components

Property and Equipment, Net

Property and equipment consisted of the following (in thousands of dollars):

VERACYTE, INC.

Notes to Financial Statements

	Year Ended December 31,	
	2017	2016
Leasehold improvements	$ 5,790	$ 5,861
Laboratory equipment	8,026	6,441
Computer equipment	1,293	1,177
Software, including software developed for internal use	2,308	1,937
Furniture and fixtures	1,435	1,131
Construction-in-process	141	1,769
Total property and equipment, at cost	18,993	18,316
Accumulated depreciation and amortization	(9,305)	(6,836)
Total property and equipment, net	$ 9,688	$ 11,480

Depreciation and amortization expense was $2.8 million, $2.4 million and $1.5 million for the years ended December 31, 2017, 2016 and 2015, respectively.

The Company has a capital lease for laboratory equipment that went into service in 2017 with a cost of $1.2 million, accumulated depreciation of $135,000 at December 31, 2017, and depreciation of $135,000 for the year ended December 31, 2017.

Finite-lived Intangible Assets

Amortization of the Percepta test intangible asset, which was acquired from the acquisition of Allegro in September 2014, began in April 2015 when research and development activities were deemed to be completed and is recognized on a straight-line basis. The amortization period of this intangible asset is over its estimated useful life of 15 years after taking into consideration expected use of the asset, legal or regulatory provisions that may limit or extend the life of the asset, as well as the effects of obsolescence and other economic factors. Amortization of $1.1 million, $1.1 million, and $0.8 million was recognized for the years ended December 31, 2017, 2016, and 2015, respectively, and accumulated amortization was $3.0 million, $1.9 million, and $0.8 million as of December 31, 2017, 2016, and 2015, respectively. Amortization expense will be approximately $1.1 million per year over the remaining life of the asset.

Accrued Liabilities

Accrued liabilities consisted of the following (in thousands of dollars):

	Year Ended December 31,	
	2017	2016
Accrued compensation expense	$ 5,293	$ 6,120
Accrued other	2,882	2,990
Total accrued liabilities	$ 8,175	$ 9,110

5. Fair Value Measurements

The Company records its financial assets and liabilities at fair value. The carrying amounts of certain financial instruments of the Company, including cash and cash equivalents, prepaid expenses and other current assets, accounts payable and accrued liabilities, approximate fair value due to their relatively short maturities. The carrying value of the Company's debt approximates its fair value because the interest rate approximates market rates that the Company could obtain for debt with similar terms. The fair value of the Company's debt is estimated using the net present value of the payments, discounted at an interest rate that is consistent with market interest rates, which is a Level II input. The accounting guidance for fair value provides a framework for measuring fair value, clarifies the definition of fair value, and expands disclosures regarding fair value measurements. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants at the reporting date. The accounting guidance establishes a three-tiered hierarchy, which prioritizes the inputs used in the valuation methodologies in measuring fair value as follows:

- Level I: Inputs which include quoted prices in active markets for identical assets and liabilities.
- Level II: Inputs other than Level I that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level III: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The fair value of the Company's financial assets include money market funds and a deposit for the lease of the Company's South San Francisco facility. Money market funds, included in cash and cash equivalents in the accompanying balance sheets, was $33.1 million and $58.7 million as of December 31, 2017 and 2016, respectively, and are Level I assets as described above. The deposit for the lease, included in restricted cash in the accompanying balance sheets, was $603,000 as of December 31, 2017 and 2016, respectively, and are Level I assets as described above.

6. Commitments and Contingencies

Operating Leases

The Company leases its headquarters and laboratory facilities in South San Francisco, California under a non-cancelable lease agreement for approximately 59,000 square feet. The lease began in June 2015 and ends in March 2026 and contains extension of lease term and expansion options. In February 2017, the Company relinquished certain expansion rights for a nominal fee. The Company had deposits of $603,000 included in long-term assets as of December 31, 2017 and 2016, restricted from withdrawal and held by a bank in the form of collateral for an irrevocable standby letter of credit held as security for the lease of the South San Francisco facility.

The Company also leases laboratory and office space in Austin, Texas under a lease that expires in January 2029 and includes options for expansion and early termination in 2025. The Company provided a cash security deposit for this lease of $139,000 and $75,000, which is included in other assets in the Company's balance sheets as of December 31, 2017 and 2016, respectively.

Future minimum lease payments under non-cancelable operating leases as of December 31, 2017 are as follows (in thousands of dollars):

VERACYTE, INC.

Notes to Financial Statements (Continued)

Year Ending December 31,	Amounts
2018	$ 2,121
2019	2,227
2020	2,332
2021	2,401
2022	2,472
Thereafter	9,384
Total minimum lease payments	$ 20,937

The Company recognizes rent expense on a straight-line basis over the non-cancelable lease period. Rent expense was $1.9 million, $2.0 million, and $1.9 million for the years ended December 31, 2017, 2016 and 2015, respectively.

Capital Lease

The Company entered into a capital lease in December 2016 for $1.2 million of laboratory equipment. The Company paid an upfront amount of $330,000 and the present value of the total future minimum lease payments was $874,000. As at December 31, 2017, the annual future minimum lease payments will be $317,000 for each of 2018 and 2019.

Supplies Purchase Commitments

The Company had non-cancelable purchase commitments with suppliers to purchase a minimum quantity of supplies for approximately $7.1 million at December 31, 2017.

Contingencies

From time to time, the Company may be involved in legal proceedings arising in the ordinary course of business. The Company believes there is no litigation pending that could have, individually or in the aggregate, a material impact on the Company's financial statements.

7. Debt

Loan and Security Agreement

On November 3, 2017, the Company entered into a loan and security agreement (the “Loan and Security Agreement”) with Silicon Valley Bank. The Loan and Security Agreement allows the Company to borrow up to $35.0 million, with a $25.0 million advance term loan (the “Term Loan Advance”) and a revolving line of credit of up to $10.0 million (the “Revolving Line of Credit”). The Term Loan Advance was advanced upon the closing of the Loan and Security Agreement and was used to pay the outstanding balance of the Company’s existing long-term debt, which was canceled at that date. The Company had not drawn on the Revolving Line of Credit as of December 31, 2017. Borrowings under the Loan and Security Agreement mature on October 1, 2022. Amounts may be borrowed and repaid under the Revolving Line of Credit up until the earliest of full repayment or maturity of the Loan and Security Agreement, termination of the Loan and Security Agreement, or October 1, 2022.

The Term Loan Advance bears interest at a variable rate equal to (i) the thirty-day U.S. London Interbank Offer Rate (“LIBOR”) plus (ii) 4.20%, with a minimum rate of 5.43% per annum. Principal amounts outstanding under the Revolving Line of Credit bear interest at a variable rate equal to (i) LIBOR plus (ii) 3.50%, with a minimum rate of 4.70% per annum.

The Company may prepay the outstanding principal amount under the Term Loan Advance plus accrued and unpaid interest and, if the Term Loan Advance is repaid in full, a prepayment premium. The prepayment premium will be (i) $750,000 if prepayment is made prior to November 3, 2018, (ii) $500,000 if the prepayment is made after November 3, 2018 but on or before November 3, 2019, or (iii) $250,000 if the prepayment is made after November 3, 2019.

In addition, a final payment on the Term Loan Advance in the amount of $1.2 million is due upon the earlier of the maturity date of the Term Loan Advance or its payment in full. The Loan and Security Agreement contains customary representations,

Note 7. Debt (Continued)

warranties, and events of default such as a material adverse change in our business, operations or financial condition, as well as affirmative and negative covenants. The negative covenants include, among other provisions, covenants that limit or restrict the Company's ability to incur liens, make investments, incur indebtedness, merge with or acquire other entities, dispose of assets, make dividends or other distributions to holders of its equity interests, engage in any new line of business, or enter into certain transactions with affiliates, in each case subject to certain exceptions. The Company's obligations under the Loan and Security Agreement are secured by substantially all of its assets (excluding intellectual property), subject to certain customary exceptions. The Loan and Security Agreement also requires the Company to achieve certain revenue levels tested quarterly on a trailing twelve-month basis. However, failure to maintain the revenue levels will not be considered a default if the Company maintains liquidity of at least $40.0 million. As of December 31, 2017, the Company was in compliance with the loan covenants.

As of December 31, 2017, the net debt obligation for borrowings made under the Loan and Security Agreement was as follows (in thousands of dollars):

	December 31, 2017
Debt principal	$ 25,000
End-of-term debt obligation	53
Unamortized debt issuance costs	(115)
Net debt obligation	$ 24,938

Future principal and end-of-term debt obligation payments due under the Loan and Security Agreement are as follows (in thousands of dollars):

Year Ending December 31,	
2019	$ 1,389
2020	8,333
2021	8,333
2022	8,132
Total	$ 26,187

Credit Agreement

In March 2016, the Company entered into a credit agreement (the "Credit Agreement") with Visium Healthcare Partners, LP ("Visium"). Under the Credit Agreement, two term loans were available to the Company with an aggregate principal amount of up to $40.0 million. The Company drew down the initial $25.0 million term loan (the "Initial Term Loan") on March 30, 2016, of which $5.0 million was used to pay the outstanding balance of the Company's previous long-term debt, which was canceled at that date.

The Term Loans bore interest at a fixed rate of 12.0% per annum and no principal payments were due through March 31, 2020. The Company was obligated to repay the outstanding principal amounts under the Term Loans in eight equal installments during the final two years under the Credit Agreement. Prepayment of the outstanding principal amount under the Term Loans prior to March 31, 2018 was subject to a prepayment premium equal to 24.0% of the outstanding principal balance, less the aggregate amount of all interest payments in cash. For any quarterly interest payment through and including the 16th interest payment date after the Initial Borrowing Date, so long as no event of default had occurred and was then continuing, the Company could have elected to pay interest in cash on the outstanding principal amounts of the Term Loans at a fixed rate of 9.0%, with the remaining 3.0% of the 12.0% interest paid-in-kind by adding such paid-in-kind interest to the outstanding principal amounts of the Term Loans. The Company elected to pay interest in-kind for the quarters ended June 30, 2016 and September 30, 2016, totaling $385,000.

VERACYTE, INC.

Notes to Financial Statements (Continued)

Note 7. Debt (Continued)

As noted above, upon entering into the Loan and Security Agreement, the Credit Agreement was paid in full and terminated on November 3, 2017, wherein all commitments were terminated, all liens were released and all outstanding principal, interest and fees accrued thereunder were repaid in the aggregate amount of $27.3 million, including a prepayment premium of $1.5 million.

As of December 31, 2016, the net debt obligation for borrowings made under the Loan and Security Agreement was as follows (in thousands of dollars):

	December 31, 2016
Debt principal	$ 25,385
Unamortized debt issuance costs	(467)
Net debt obligation	$ 24,918

Interest Expense

Interest expense was recognized as follows (in thousands of dollars):

	Year Ended December 31,		
	2017	2016	2015
Nominal debt interest	$ 2,838	$ 2,378	$ 253
Amortization and write-off of debt discount and issuance costs	472	173	46
End-of-term debt obligation interest	53	156	79
Debt prepayment penalty	1,536	50	—
Interest on capital lease	42	—	—
Total	$ 4,941	$ 2,757	$ 378

8. Stockholders' Equity

Common Stock

The Company's Restated Certificate of Incorporation authorizes the Company to issue 125,000,000 shares of common stock with a par value of $0.001 per share. The holder of each share of common stock shall have one vote for each share of stock. The common stockholders are also entitled to receive dividends whenever funds and assets are legally available and when declared by the Board of Directors, subject to the prior rights of holders of all series of convertible preferred stock outstanding. No dividends have been declared as of December 31, 2017.

As of December 31, 2017 and 2016, the Company had reserved shares of common stock for issuance as follows:

	December 31,	
	2017	2016
Stock options and restricted stock units issued and outstanding	6,061,081	5,251,832
Stock options and restricted stock units available for grant under stock option plans	1,133,907	887,724
Common stock available for the Employee Stock Purchase Plan	456,002	609,053
Total	7,650,990	6,748,609

In November 2016, the Company completed a public offering of 5,723,300 shares of its common stock at a price of $6.00 per share. Net proceeds to the Company were $32.1 million, after deducting underwriting discounts and commissions and other expenses of $2.2 million. At December 31, 2016, the Company had $200,000 receivable from the underwriters for reimbursement of other expenses, which is included in prepaid expenses and other current assets in the Company's balance sheet at that date.

In April 2015, the Company completed a private placement of 4,907,975 shares of its common stock to certain accredited investors at a purchase price of $8.15 per share. Net proceeds to the Company were $37.3 million, after deducting placement agent fees and other expenses of $2.7 million.

9. Stock Incentive Plans

Stock Plans

In February 2008, the Company adopted the 2008 Stock Plan (the "2008 Plan"). The 2008 Plan provides for the granting of options to purchase common stock and common stock to employees, directors and consultants of the Company. The Company may grant incentive stock options ("ISOs"), non-statutory stock options ("NSOs") or restricted stock under the 2008 Plan. ISOs may only be granted to Company employees (including directors who are also considered employees). NSOs and restricted stock may be granted to Company employees, directors and consultants. Options may be granted for terms of up to ten years from the date of grant, as determined by the Board of Directors, provided however, that with respect to an ISO granted to a person who owns stock representing more than 10% of the voting power of all classes of stock of the Company, the term shall be for no more than five years from the date of grant. The exercise price of options granted must be at a price no less than 100% of the estimated fair value of the shares on the date of grant, as determined by the Board of Directors, provided however, that with respect to an ISO granted to an employee who at the time of grant of such option owns stock representing more than 10% of the voting power of all classes of stock of the Company, the exercise price shall not be less than 110% of the estimated fair value of the shares on the date of grant.

In October 2013, the Company adopted the 2013 Stock Incentive Plan (the "2013 Plan"). The 2013 Plan was subsequently approved by the Company's stockholders and became effective on November 4, 2013, immediately before the closing of the Company's initial public offering ("IPO"). Following the effectiveness of the 2013 Plan, no additional options were granted under the 2008 Plan. An aggregate of 1,700,000 shares were initially reserved for issuance under the 2013 Plan. In addition, to the extent that any awards outstanding or subject to vesting restrictions under the 2008 Plan are subsequently forfeited or terminated for any reason before being exercised or settled, the shares of common stock reserved for issuance pursuant to such awards as of the closing

9. Stock Incentive Plans (Continued)

of the IPO will become available for issuance under the 2013 Plan. The remaining shares available for grant under the 2008 Plan became available for issuance under the 2013 Plan upon the closing of the IPO. On the first day of each year from 2014 to 2023, the 2013 Plan authorizes an annual increase of the lesser of 4% of outstanding shares on the last day of the immediately preceding fiscal year or a lesser amount as determined by the Company's Board of Directors. As of December 31, 2017, 1,133,907 shares were available for future issuance under the 2013 Plan.

Pursuant to the 2013 Plan, stock options, restricted shares, stock units, including restricted stock units and stock appreciation rights may be granted to employees, consultants, and outside directors of the Company. Options granted may be either ISOs or NSOs.

Stock options are governed by stock option agreements between the Company and recipients of stock options. ISOs and NSOs may be granted under the 2013 Plan at an exercise price of not less than 100% of the fair market value of the common stock on the date of grant, determined by the Compensation Committee of the Board of Directors. Options become exercisable and expire as determined by the Compensation Committee, provided that the term of ISOs may not exceed ten years from the date of grant. Stock option agreements may provide for accelerated exercisability in the event of an optionee's death, disability, or retirement or other events.

Stock units are governed by stock unit agreements between the Company and recipients of stock units. Stock units may be granted under the 2013 Plan and the number of stock units awarded are determined by the Compensation Committee of the Board of Directors. Stock units vest and expire as determined by the Compensation Committee. Stock unit agreements may provide for accelerated vesting in the event of a stock unit holder's death, disability, or retirement or other events.

Any outside director who was not previously an employee and who first joins the Company's Board of Directors on or after the effective date of the 2013 Plan will be automatically granted an initial NSO to purchase 35,000 shares of common stock upon first becoming a member of the Board of Directors. The shares subject to the initial option will vest and become exercisable one-third (1/3) each of the first, second and third annual anniversaries of the date of grant. On the first business day after each regularly scheduled annual meeting of stockholders, each outside director who was not elected to the Board of Directors for the first time at such meeting and who will continue serving as a member of the Board of Directors thereafter will be automatically granted an option to purchase 10,000 shares of common stock, provided that the outside director has served on the Board of Directors for at least six months. Each annual option will vest and become exercisable on the first anniversary of the date of grant, or immediately prior to the next regular annual meeting of the Company's stockholders following the date of grant if the meeting occurs prior to the first anniversary date. The options granted to outside directors will have a per share exercise price equal to 100% of the fair market value of the underlying shares on the date of grant and will become fully vested in the event of a change of control. In addition, such options will terminate on the earlier of (i) the day before the 10th anniversary of the date of grant or (ii) the date 12 months after the termination of the outside director's service for any reason.

The following table summarizes activity under the Company's stock incentive plans (aggregate intrinsic value in thousands):

VERACYTE, INC.

Notes to Financial Statements (Continued)

9. Stock Incentive Plans (Continued)

	Shares Available for Grant	Stock Options Outstanding and Unvested Stock Units	Weighted Average Exercise Price of Stock Options	Weighted Average Remaining Contractual Life of Stock Options (Years)	Aggregate Intrinsic Value of Stock Options
Balance—December 31, 2016	887,724	5,251,832	$ 7.56	7.24	$ 8,515
Additional shares authorized	1,350,491	—			
Granted - stock options	(1,769,000)	1,769,000	8.80		
Granted - restricted stock units	(60,000)	60,000			
Canceled	715,297	(715,297)	9.94		
Exercised	—	(279,454)	5.13		
Restricted stock units vested	—	(25,000)			
Tax portion of restricted stock units vested	9,395	—			
Balance—December 31, 2017	1,133,907	6,061,081	$ 7.76	6.71	$ 4,531
Options vested and exercisable—December 31, 2017		3,174,848	$ 7.43	5.58	$ 4,257
Options vested and expected to vest—December 31, 2017		5,749,963	$ 7.74	6.64	$ 4,509

The aggregate intrinsic value was calculated as the difference between the exercise price of the options to purchase common stock and the fair market value of the Company's common stock, which was $6.53 and $7.74 per share as of December 31, 2017 and 2016, respectively.

The weighted average fair value of options to purchase common stock granted was $4.49, $3.35 and $5.12 for the years ended December 31, 2017, 2016 and 2015, respectively.

The aggregate estimated grant date fair value of employee options to purchase common stock vested during the years ended December 31, 2017, 2016 and 2015 was $3.1 million, $5.8 million and $5.3 million, respectively.

The intrinsic value of stock options exercised was $0.7 million, $0.9 million and $1.8 million for the years ended December 31, 2017, 2016 and 2015, respectively.

The weighted average fair value of restricted stock units granted was $8.93 and $7.47 for the years ended December 31, 2017 and 2016, respectively. The intrinsic value of restricted stock units vested was $157,000 for the year ended December 31, 2017 for the first stock units issued in December 2016.

Employee Stock Purchase Plan

In May 2015, the Company's stockholders approved the Company's Employee Stock Purchase Plan ("ESPP"). The ESPP provides eligible employees with an opportunity to purchase common stock from the Company and to pay for their purchases through payroll deductions. The ESPP will be implemented through a series of offerings of purchase rights to eligible employees. Under the ESPP, the Compensation Committee of the Company's Board of Directors may specify offerings with a duration of not more than 12 months, and may specify shorter purchase periods within each offering. During each purchase period, payroll deductions will accumulate, without interest. On the last day of the purchase period, accumulated payroll deductions will be used to purchase common stock for employees participating in the offering.

The purchase price will be specified pursuant to the offering, but cannot, under the terms of the ESPP, be less than 85% of the fair market value per share of the Company's common stock on either the offering date or on the purchase date, whichever is less.

The Company's Board of Directors has determined that the purchase periods initially shall have a duration of six months, that the first purchase period began on August 3, 2015 and that the purchase price will be 85% of the fair market value per share

9. Stock Incentive Plans (Continued)

of the Company's common stock on either the offering date or the purchase date, whichever is less. The length of the purchase period applicable to U.S. employees and the purchase price may not be changed without the approval of the independent members of the Compensation Committee of the Company's Board of Directors. The Compensation Committee has determined that if the fair market value of a share of the Company's common stock on any purchase date within a particular offering period is less than the fair market value on the start date of that offering period, then the offering period will automatically terminate and the employees in that offering period will automatically be transferred and enrolled in a new offering period which will begin on the next day following such purchase date.

No employee is permitted to accrue, under the ESPP, a right to purchase stock of the Company having a value in excess of $25,000 of the fair market value of such stock (determined at the time the right is granted) for each calendar year.

Stock-based Compensation

The following table summarizes stock-based compensation expense related to stock options, restricted stock units and the ESPP for the years ended December 31, 2017, 2016 and 2015, and are included in the statements of operations and comprehensive loss as follows (in thousands of dollars):

	Year Ended December 31,		
	2017	2016	2015
Cost of revenue	$ 133	$ 126	$ 100
Research and development	1,495	1,322	1,178
Selling and marketing	1,899	1,594	1,326
General and administrative	3,090	3,336	2,998
Total stock-based compensation expense	$ 6,617	$ 6,378	$ 5,602

As of December 31, 2017, the Company had $9.2 million of unrecognized compensation expense related to unvested stock options and restricted stock units, which is expected to be recognized over an estimated weighted-average period of 2.50 years.

The estimated grant-date fair value of employee stock options was calculated using the Black-Scholes option-pricing model, based on the following assumptions:

	Year Ended December 31,		
	2017	2016	2015
Weighted-average volatility	50.40 - 52.40%	52.49 - 56.36%	52.56 - 68.82%
Weighted-average expected term (years)	5.50 - 6.08	5.50 - 6.27	5.50 - 6.08
Risk-free interest rate	1.80 - 2.33%	1.16 - 2.09%	1.55 - 2.03%
Expected dividend yield	—	—	—

The estimated fair value of non-employee stock options was calculated using the Black-Scholes option-pricing model, based on the following assumptions:

	Year Ended December 31,		
	2017	2016	2015
Weighted-average volatility	50.40 - 51.10%	52.77 - 65.85%	64.72 - 74.48%
Weighted-average expected term (years)	6.80 - 7.75	7.80 - 8.56	7.92 - 10.00
Risk-free interest rate	2.16 - 2.37%	1.39 - 2.30%	1.78 - 2.29%
Expected dividend yield	—	—	—

9. Stock Incentive Plans (Continued)

The estimated grant date fair value of the ESPP shares was calculated using the Black-Scholes option-pricing model, based on the following assumptions:

	Year Ended December 31,		
	2017	2016	2015
Weighted-average volatility	37.00 - 43.86%	46.38 - 75.72%	53.57 - 58.10%
Weighted-average expected term (years)	0.50 - 1.00	0.50 - 1.00	0.49 - 0.99
Risk-free interest rate	0.65 - 1.22%	0.40 - 0.50%	0.17 - 0.33%
Expected dividend yield	—	—	—

10. Genzyme Co-Promotion Agreement

In January 2012, the Company and Genzyme Corporation ("Genzyme") executed a co-promotion agreement for the co-exclusive rights and license to promote and market the Company's Afirma thyroid diagnostic solution in the United States and in 40 named countries. In exchange, the Company received a $10.0 million upfront co-promotion fee from Genzyme in February 2012 that was recognized on a straight-line basis over the term of the agreement. Under the terms of the co-promotion agreement, Genzyme received a percentage of U.S. cash receipts that the Company has received related to Afirma as co-promotion fees. On March 9, 2016, as permitted under the agreement, the Company gave Genzyme notice of termination effective September 9, 2016 with the remaining portion of the upfront co-promotion fee recognized through that date as well.

In February 2015, the Company entered into an ex-U.S. co-promotion agreement with Genzyme for the promotion of the Afirma solution test with exclusivity in five countries outside the United States initially and in other countries agreed to from time to time. The agreement commenced on January 1, 2015 and was to continue until December 31, 2019, with extension of the agreement possible upon agreement of the parties. Pursuant to the agreement, the Company agreed to pay Genzyme 25% of net revenue from the sale of the Afirma solution test in Brazil and Singapore over a five-year period commencing January 1, 2015. These payments were immaterial for all periods presented. Effective July 6, 2017, the agreement was terminated and payments made under this agreement for all periods presented were not material.

The Company incurred $6.1 million and $7.3 million in co-promotion expense, excluding the amortization of the upfront co-promotion fee, in the years ended December 31, 2016 and 2015, respectively, which is included in selling and marketing expenses in the statements of operations and comprehensive loss. The Company had no obligation to Genzyme at either December 31, 2017 or December 31, 2016.

The Company amortized $0.9 million and $1.9 million of the $10.0 million upfront co-promotion fee in the years ended December 31, 2016 and 2015, respectively, which is reflected as a reduction to selling and marketing expenses in the accompanying statements of operations and comprehensive loss. The upfront fee was fully amortized in 2016.

11. Thyroid Cytopathology Partners

In 2010, the Company entered into an arrangement with Pathology Resource Consultants, P.A. ("PRC") to set up and manage a specialized pathology practice to provide testing services to the Company. There was no direct monetary compensation from the Company to PRC as a result of this arrangement. The Company's service agreement is with the specialized pathology practice, Thyroid Cytopathology Partners, ("TCP"), which was managed by PRC and was effective through December 31, 2015, and thereafter automatically renews every year unless either party provides notice of intent not to renew at least 12 months prior to the end of the then-current term. Under the service agreement, the Company pays TCP based on a fixed price per test schedule, which is reviewed periodically for changes in market pricing. Subsequent to December 2012, an amendment to the service agreement allows TCP to sublease a portion of the Company's facility in Austin, Texas. The Company does not have an ownership interest in or provide any form of financial or other support to TCP.

The Company has concluded that TCP represents a variable interest entity and that the Company is not the primary beneficiary as it does not have the ability to direct the activities that most significantly impact TCP's economic performance. Therefore, the Company does not consolidate TCP. All amounts paid to TCP under the service agreement are expensed as incurred and included in cost of revenue in the accompanying statements of operations and comprehensive loss.

On October 16, 2017, the Company amended and restated its service agreement with TCP. The agreement is effective through October 31, 2022, and thereafter automatically renews every year unless either party provides notice of intent not to renew at least 12 months prior to the end of the then-current term. In connection with amending and restating the TCP agreement, the Company’s arrangement with PRC was simultaneously assigned by PRC to TCP and immediately terminated, and the Company agreed to pay PRC a total of $1.8 million over eight quarterly installments in exchange for TCP reducing the price per test it charges the Company during the term of the amended TCP agreement. Payments are amortized over the term of the agreement.

The Company incurred $4.6 million, $5.1 million, and $4.7 million for the years ended December 31, 2017, 2016 and 2015, respectively, in cytopathology testing and evaluation services expenses with TCP. The Company's outstanding obligations to TCP for cytopathology testing services were $308,000 and $426,000 as of December 31, 2017 and 2016, respectively, and are included in accounts payable in the accompanying balance sheets.

TCP reimburses the Company for TCP's proportionate share of the Company's rent and related operating expenses for the leased facility. TCP's portion of rent and related operating expenses for the shared space at the Austin, Texas facility was $114,000, $103,000 and $90,000 for the years ended December 31, 2017, 2016 and 2015 and is included other income, net in the Company's statements of operations and comprehensive loss.

12. Income Taxes

The Company generated a pretax loss of $31.0 million, $31.4 million and $33.7 million in the United States for the years ended December 31, 2017, 2016 and 2015, respectively. Since inception, the Company has not generated any pretax income or loss outside of the United States. The Company recorded no provision for income taxes during the years ended December 31, 2017, 2016 or 2015.

The Company follows FASB ASC No. 740, *Income Taxes for the Computation and Presentation of its Tax Provision.* The following table presents a reconciliation of the income tax expense computed at the statutory federal rate and the Company's income tax expense for the periods presented (in thousands of dollars):

	Year Ended December, 31,		
	2017	2016	2015
U.S. federal taxes at statutory rate	$ (10,541)	$ (10,662)	$ (11,459)
State tax (net of federal benefit)	15	20	(30)
Permanent differences	198	153	96
Incentive stock options	994	1,095	789
Tax credits	(588)	(677)	(581)
Change in valuation allowance	(14,552)	10,071	11,185
Rate differential impact - *Tax Cuts and Jobs Act*	24,474	—	—
Total	$ —	$ —	$ —

12. Income Taxes (Continued)

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax assets and liabilities are as follows (in thousands of dollars):

	Year Ended December 31,		
	2017	2016	2015
Deferred tax assets:			
Net operating loss carryforwards	$ 47,177	$ 61,674	$ 52,262
Research and development credits	4,034	3,174	2,497
Stock-based compensation	2,068	2,847	1,825
Genzyme co-promotion agreement	—	—	330
Accruals, deferred rent and other	2,375	4,511	4,698
Gross deferred tax assets	55,654	72,206	61,612
Valuation allowance	(51,657)	(65,975)	(55,101)
Net deferred tax assets	3,997	6,231	6,511
Deferred tax liabilities:			
Property and equipment	(983)	(1,180)	(1,215)
In-process research and development	(3,014)	(5,051)	(5,296)
Gross deferred tax liabilities	(3,997)	(6,231)	(6,511)
Net deferred tax liabilities	(3,997)	(6,231)	(6,511)
Net deferred taxes	$ —	$ —	$ —

On December 22, 2017, the Tax Cuts and Jobs Act ("The Act") was signed into law. Among other changes is a permanent reduction in the statutory federal corporate income tax rate from 35% to 21% effective January 1, 2018. As a result of the reduction in the corporate income tax rate, the Company revalued its net deferred tax asset at December 31, 2017, to the new statutory rate. This resulted in a reduction in the value of net deferred tax asset of approximately $24.5 million, which was offset by the change in valuation allowance resulting in no impact on the Company's tax expense. The Company has completed a preliminary assessment of the accounting for the income tax effects of the Act, as it relates to its current structure, including provisions that are effective for tax years beginning in 2018. The Company's preliminary assessment is subject to revisions to any additional guidance issued by the U.S. Treasury Department, Internal Revenue Service, FASB, and other standard-setting and regulatory bodies. Adjustments may materially impact our provision for income taxes and the assessment of the accounting for the tax effects of The Act will not extend beyond one year from the enactment date.

The Company has established a full valuation allowance against its net deferred tax assets due to the uncertainty surrounding realization of such assets. The valuation allowance decreased $14.3 million during the year ended December 31, 2017 and increased $10.9 million and $11.7 million during the years ended December 31, 2016 and 2015, respectively.

On March 30, 2016, the FASB issued Accounting Standards Update 2016-09, Improvements to Employee Share-Based Accounting, (“ASU 2016-09”). The required adoption period is for financial statements issued for annual periods beginning after December 15, 2016. The Company adopted ASU 2016-09 in the first quarter of 2017 which was applied using a modified retrospective approach. As a result of adoption, the Company’s federal and state net operating losses have been adjusted by excess tax benefits of $1.6 million. Due to a full valuation allowance on all deferred tax assets, there is no impact to the statement of financial position.

As of December 31, 2017, the Company had net operating loss carryforwards of approximately $196.1 million and $91.8 million available to reduce future taxable income, if any, for federal and state income tax purposes, respectively. The U.S. federal net operating loss carryforwards will begin to expire in 2026 while for state purposes, the net operating losses began to expire in 2028.

12. Income Taxes (Continued)

As of December 31, 2017, the Company had net research and development credit carryforwards of approximately $3.8 million and $3.2 million available to reduce future taxable income, if any, for federal and state income tax purposes, respectively. The federal credit carryforwards begin to expire in 2028. California credits have no expiration date. Other state credit carryforwards begin to expire in 2023.

The Internal Revenue Code of 1986, as amended, imposes restrictions on the utilization of net operating losses and tax credits in the event of an "ownership change" of a corporation. Accordingly, a company's ability to use net operating losses and tax credits may be limited as prescribed under Internal Revenue Code Section 382 and 383 ("IRC Section 382"). Events which may cause limitations in the amount of the net operating losses or tax credits that the Company may use in any one year include, but are not limited to, a cumulative ownership change of more than 50% over a three-year period. Utilization of the federal and state net operating losses may be subject to substantial annual limitation due to the ownership change limitations provided by the IRC Section 382 rules and similar state provisions. In the event the Company has any changes in ownership, net operating losses and research and development credit carryovers could be limited and may expire unutilized.

Uncertain Tax Positions

As of December 31, 2017, the Company had unrecognized tax benefits of $2.5 million, none of which would currently affect the Company's effective tax rate if recognized due to the Company's deferred tax assets being fully offset by a valuation allowance. The Company does not anticipate that the amount of unrecognized tax benefits relating to tax positions existing at December 31, 2017 will significantly increase or decrease within the next 12 months.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows (in thousands of dollars):

	Year Ended December 31,		
	2017	2016	2015
Unrecognized tax benefits, beginning of period	$ 2,222	$ 1,871	$ 1,571
Gross increases—tax position in prior period	—	—	—
Gross decreases—tax position in prior period	—	—	—
Gross increases—current period tax position	301	351	300
Lapse of statute of limitations	—	—	—
Unrecognized tax benefits, end of period	$ 2,523	$ 2,222	$ 1,871

It is the Company's policy to include penalties and interest expense related to income taxes as a component of other income (expense), net, and interest expense, respectively, as necessary. There was no interest expense or penalties related to unrecognized tax benefits recorded through December 31, 2017.

The Company's major tax jurisdictions are the United States and California. All of the Company's tax years will remain open for examination by the Federal and state tax authorities for three and four years, respectively, from the date of utilization of the net operating loss or research and development credit. The Company does not have any tax audits pending.

13. 401(k) Plan

The Company sponsors a 401(k) defined contribution plan covering all employees. Employer contributions to the plan were $324,000, $262,000 and $103,000 for the years ended December 31, 2017, 2016, and 2015, respectively.

14. Selected Quarterly Financial Data (Unaudited)

The following table presents selected unaudited financial data for each of the eight quarters in the two-year period ended December 31, 2017. The Company believes this information reflects all recurring adjustments necessary to fairly present this information when read in conjunction with the Company's financial statements and the related notes. Net loss per common share, basic and diluted, for the four quarters of each fiscal year may not sum to the total for the fiscal year because of the different

number of shares outstanding during each period. The results of operations for any quarter are not necessarily indicative of the results to be expected for any future period (in thousands of dollars, except for share and per share data):

Quarter Ended	March 31	June 30	September 30	December 31
2017:				
Revenue	$ 16,432	$ 18,406	$ 17,519	$ 19,596
Net loss	(8,217)	(7,298)	(7,049)	(8,439)
Net loss per common share, basic and diluted	(0.24)	(0.22)	(0.21)	(0.24)
Shares used to compute net loss per common share, basic and diluted	33,823,889	33,873,128	33,946,748	34,055,524
2016:				
Revenue	$ 13,550	$ 14,675	$ 18,603	$ 18,257
Net loss	(10,075)	(11,243)	(5,637)	(4,403)
Net loss per common share, basic and diluted	(0.36)	(0.40)	(0.20)	(0.14)
Shares used to compute net loss per common share, basic and diluted	27,817,993	27,859,918	27,916,819	31,705,603

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

Not applicable.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

We maintain "disclosure controls and procedures," as such term is defined in Rule 13a-15(e) under the Exchange Act, that are designed to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in Securities and Exchange Commission rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating our disclosure controls and procedures, management recognized that disclosure controls and procedures, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the disclosure controls and procedures are met. Our disclosure controls and procedures have been designed to meet reasonable assurance standards. Additionally, in designing disclosure controls and procedures, our management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible disclosure controls and procedures. The design of any disclosure controls and procedures also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

Based on their evaluation as of the end of the period covered by this Annual Report on Form 10-K, our Chief Executive Officer and Chief Financial Officer have concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

Management's Annual Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) under the Exchange Act. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of the effectiveness of internal control to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with policies or procedures may deteriorate. Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2017 using the criteria established in *Internal Control Integrated Framework* ("2013 Framework") issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO").

Based on our evaluation using those criteria, our management has concluded that, as of December 31, 2017, our internal control over financial reporting was effective to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

This Annual Report on Form 10-K does not include an attestation report of our registered public accounting firm on our internal control over financial reporting due to an exemption established by the JOBS Act for "emerging growth companies."

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting (as such term is defined in Rule 13a-15(f) under the Exchange Act) identified in connection with the evaluation identified above that occurred during the quarter ended December 31, 2017 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this item with respect to directors is incorporated by reference from the information contained in our proxy statement to be filed with the Securities and Exchange Commission no later than 120 days from the end of our fiscal year ended December 31, 2017 in connection with the solicitation of proxies for our 2018 Annual Meeting of Stockholders, or the Proxy Statement. Certain information required by this item concerning executive officers is set forth in Part I of this Report under the caption “Executive Officers of the Registrant” and is incorporated herein by reference.

There have been no material changes to the procedures by which stockholders may recommend nominees to our Board of Directors.

Item 405 of Regulation S-K calls for disclosure of any known late filing or failure by an insider to file a report required by Section 16(a) of the Exchange Act. This disclosure is contained in the section entitled “Section 16(a) Beneficial Ownership Reporting Compliance” in the Proxy Statement and is incorporated herein by reference.

We have adopted a Code of Business Conduct and Ethics that applies to all of our officers and employees, including our Chairman, President and Chief Executive Officer, our Chief Financial Officer and other employees who perform financial or accounting functions. The Code of Business Conduct and Ethics sets forth the basic principles that guide the business conduct of our employees. We have also adopted a Senior Financial Officers’ Code of Ethics that specifically applies to our Chairman, President and Chief Executive Officer, our Chief Financial Officer, and key management employees. Stockholders may request a free copy of our Code of Business Conduct and Ethics and our Senior Financial Officers’ Code of Ethics by contacting Veracyte, Inc., Attention: Chief Financial Officer, 6000 Shoreline Court, Suite 300, South San Francisco, California 94080.

To date, there have been no waivers under our Code of Business Conduct and Ethics or Senior Financial Officers’ Code of Ethics. We intend to disclose future amendments to certain provisions of our Code of Business Conduct and Ethics or Senior Financial Officers’ Code of Ethics or waivers of such Codes granted to executive officers and directors on our website at http://www.veracyte.com within four business days following the date of such amendment or waiver.

Our Board of Directors has appointed an Audit Committee, comprised of Kevin K. Gordon, as Chairman, Karin Eastham, and John L. Bishop. The Board of Directors has determined that Mr. Gordon qualifies as an audit committee financial expert under the definition outlined by the Securities and Exchange Commission. In addition, each of the members of the Audit Committee qualifies as an "independent director" under the current rules of The Nasdaq Stock Market and SEC rules and regulations.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this item is incorporated by reference to our Proxy Statement.

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

The information required by this item is incorporated by reference to our Proxy Statement.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by this item is incorporated by reference to our Proxy Statement.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this item is incorporated by reference to our Proxy Statement.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) Documents filed as part of this report

1. Financial Statements:

Reference is made to the Index to Financial Statements of Veracyte, Inc. included in Item 8 of Part II hereof.

2. Financial Statement Schedules

All schedules have been omitted because they are not required, not applicable, or the required information is included in the financial statements or notes thereto.

3. Exhibits

See Item 15(b) below. Each management contract or compensating plan or arrangement required to be filed has been identified.

(b) Exhibits

		Incorporated by Reference				
Exhibit Number	**Description**	Form	File No.	Exhibit	Filing Date	Filed Herewith
3.1	Restated Certificate of Incorporation of the Registrant	8-K	001-36156	3.1	11/8/2013	
3.2	Restated Bylaws of the Registrant	8-K	001-36156	3.2	11/8/2013	
4.1	Form of Common Stock Certificate	S-1/A	333-191282	4.1	10/15/2013	
10.1#	Form of Indemnification Agreement between the Registrant and its officers and directors.	S-1/A	333-191282	10.1	10/7/2013	
10.2#	2008 Stock Plan and forms of agreements thereunder.	S-1	333-191282	10.2	9/20/2013	
10.3#	2013 Stock Incentive Plan, as amended, and forms of stock option award agreement, stock option exercise agreement, restricted stock agreement and restricted stock unit agreement.					X
10.4#	Employee Stock Purchase Plan.	10-Q	001-36156	10.1	8/13/2015	
10.5	Lease Agreement between Riata Holdings, L.P., as landlord, and the Registrant, as tenant, dated November 28, 2012.	S-1	333-191282	10.6	9/20/2013	
10.7	Second Amendment to Lease Agreement dated as of August 14, 2017 by and between BRI 1868 RIATA, LLC and the Registrant.	10-Q	001-36156	10.1	11/7/2017	
10.6	First Amendment to Lease Agreement dated as of January 7, 2014 by and between Riata Holdings, L.P. and the Registrant.	10-K	001-36156	10.7	3/20/2014	

		Incorporated by Reference				
10.8	Office Building Lease by and between American Fund US Investments LP and the Registrant dated April 29, 2015.	10-Q	001-36156	10.2	8/13/2015	
10.9	First Amendment to Office Building Lease dated May 3, 2016 by and between American Fund US Investments LP and the Registrant.					X
10.10	Second Amendment to Office Building Lease dated February 8, 2017 by and between CRP 6000 Shoreline, L.L.C. and the Registrant.	10-K	001-36156	10.10	3/1/2017	
10.11#	Employment Agreement, dated as of February 15, 2008, between Bonnie Anderson and the Registrant.	S-1	333-191282	10.10	9/20/2013	
10.12#	Amendment to Bonnie Anderson Employment Agreement, dated as of December 22, 2008, between Bonnie Anderson and the Registrant.	S-1	333-191282	10.11	9/20/2013	
10.13#	Amendment No. 2 to Bonnie Anderson Employment Agreement, effective as of March 11, 2009, between Bonnie Anderson and the Registrant.	S-1	333-191282	10.12	9/20/2013	
10.14#	Amended and Restated Change of Control and Severance Agreement, effective as of May 14, 2015, between Bonnie Anderson and the Registrant.	10-Q	001-36156	10.1	5/15/2015	
10.15#	Amended and Restated Change of Control and Severance Agreement, effective as of May 14, 2015, between Christopher Hall and the Registrant.	10-Q	001-36156	10.3	5/15/2015	
10.16#	Change of Control and Severance Agreement, effective as of February 15, 2017, between Keith Kennedy and the Registrant.	10-K	001-36156	10.18	3/1/2017	
10.17#	Offer Letter dated as of January 28, 2010 with Christopher M. Hall.	S-1	333-191282	10.18	9/20/2013	
10.18†	Amended and Restated Pathology Services Agreement dated as of October 16, 2017 between Thyroid Cytopathology Partners, P.A. and the Registrant					X
10.19	Loan and Security Agreement dated as of November 3, 2017 between Silicon Valley Bank and the Registrant.					X
10.20#	Offer Letter dated as of November 17, 2016 with Keith Kennedy.					X
12.1	Statement Regarding Computation of Ratios.					X

		Incorporated by Reference	
23.1	Consent of independent registered public accounting firm.		X
24.1	Power of Attorney (see the signature page of this Annual Report on Form 10-K).		X
31.1	Principal Executive Officer's Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.		X
31.2	Principal Financial Officer's Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.		X
32.1*	Certification Pursuant to 18 U.S.C. § 1350 (Section 906 of the Sarbanes-Oxley Act of 2002).		X
32.2*	Certification Pursuant to 18 U.S.C. § 1350 (Section 906 of the Sarbanes-Oxley Act of 2002).		X
101.INS	XBRL Instance Document		X
101.SCH	XBRL Taxonomy Extension Schema		X
101.CAL	XBRL Taxonomy Extension Calculation Linkbase		X
101.DEF	XBRL Taxonomy Extension Definition Linkbase		X
101.LAB	XBRL Taxonomy Extension Label Linkbase		X
101.PRE	XBRL Taxonomy Extension Presentation Linkbase		X

# Indicates management contract or compensatory plan or arrangement.

* In accordance with Item 601(b)(32)(ii) of Regulation S-K and SEC Release No. 34-47986, the certifications furnished in Exhibits 32.1 and 32.2 hereto are deemed to accompany this Form 10-K and will not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934 (the "Exchange Act") or deemed to be incorporated by reference into any filing under the Exchange Act or the Securities Act of 1933, as amended, except to the extent that the registrant specifically incorporates it by reference.

† Registrant is requesting confidential treatment with respect to certain portions of this Exhibit.

Copies of the above exhibits not contained herein are available to any stockholder, upon payment of a reasonable per page fee, upon written request to: Chief Financial Officer, Veracyte, Inc., 6000 Shoreline Court, Suite 300, South San Francisco, California 94080.

(c) Financial Statement Schedules

Reference is made to Item 15(a) 2 above.

ITEM 16. FORM 10-K SUMMARY

Not applicable.

SIGNATURES

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

VERACYTE, INC.

By: /s/ BONNIE H. ANDERSON

Bonnie H. Anderson
Chairman and Chief Executive Officer

Date: February 27, 2018

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENT, that each person whose signature appears below constitutes and appoints Bonnie H. Anderson and Keith S. Kennedy, and each of them, his true and lawful attorneys-in-fact, each with full power of substitution, for him or her in any and all capacities, to sign any amendments to this annual report on Form 10-K and to file the same, with exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, hereby ratifying and confirming all that each of said attorneys-in-fact or their substitute or substitutes may do or cause to be done by virtue hereof.

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

Signature	Title	Date
/s/ BONNIE H. ANDERSON Bonnie H. Anderson	Chairman and Chief Executive Officer (Principal Executive Officer)	February 27, 2018
/s/ KEITH S. KENNEDY Keith S. Kennedy	Chief Financial Officer (Principal Financial and Accounting Officer)	February 27, 2018
/s/ JOHN L. BISHOP John L. Bishop	Lead Independent Director	February 27, 2018
/s/ FRED E. COHEN, M.D., D.PHIL. Fred E. Cohen, M.D., D.Phil.	Director	February 27, 2018
/s/ KARIN EASTHAM Karin Eastham	Director	February 27, 2018
/s/ ROBERT S. EPSTEIN Robert S. Epstein	Director	February 27, 2018
/s/ KEVIN K. GORDON Kevin K. Gordon	Director	February 27, 2018
/s/ EVAN JONES Evan Jones	Director	February 27, 2018
/s/ TINA S. NOVA, PH.D. Tina S. Nova, Ph.D.	Director	February 27, 2018
/s/ JESSE I. TREU, PH.D. Jesse I. Treu, Ph.D.	Director	February 27, 2018

Exhibit 10.3#

VERACYTE, INC.

2013 STOCK INCENTIVE PLAN

(Adopted by the Board of Directors on October 2, 2013)

(As amended by the Board of Directors on May 23, 2017)

(As amended by the Board of Directors on October 23, 2017)

Table of Contents

VERACYTE, INC.

2013 STOCK INCENTIVE PLAN

SECTION 1. ESTABLISHMENT AND PURPOSE.

The Plan was adopted by the Board of Directors on October 2, 2013, and became effective immediately prior to the closing of the initial offering of Stock to the public pursuant to a registration statement filed by the Company with the Securities and Exchange Commission (the "***Effective Date***"). The purpose of the Plan is to promote the long-term success of the Company and the creation of stockholder value by (a) encouraging Employees, Outside Directors and Consultants to focus on critical long-range objectives, (b) encouraging the attraction and retention of Employees, Outside Directors and Consultants with exceptional qualifications and (c) linking Employees, Outside Directors and Consultants directly to stockholder interests through increased stock ownership. The Plan seeks to achieve this purpose by providing for Awards in the form of restricted shares, stock units, options (which may constitute incentive stock options or nonstatutory stock options), stock appreciation rights or cash-based awards.

SECTION 2. DEFINITIONS.

(a) "***Affiliate***" shall mean any entity other than a Subsidiary, if the Company and/or one or more Subsidiaries own not less than 50% of such entity.

(b) "***Award***" shall mean any award of an Option, a SAR, a Restricted Share, a Stock Unit or a Cash-Based Award under the Plan.

(c) "***Award Agreement***" shall mean the agreement between the Company and the recipient of an Award which contains the terms, conditions and restrictions pertaining to such Award.

(d) "***Board of Directors***" *or* "***Board***" shall mean the Board of Directors of the Company, as constituted from time to time.

(e) "***Cash-Based Award***" shall mean an Award that entitles the Participant to receive a cash-denominated payment.

(f) "***Change in Control***" shall mean the occurrence of any of the following events:

(i) A change in the composition of the Board of Directors occurs, as a result of which fewer than one-half of the incumbent directors are directors who either:

(A) Had been directors of the Company on the "look-back date" (as defined below) (the "original directors"); or

(B) Were elected, or nominated for election, to the Board of Directors with the affirmative votes of at least a majority of the aggregate of the original directors who were still in office at the time of the election or nomination and the directors whose election or nomination was previously so approved (the "continuing directors"); *provided, however,* that for this purpose, the "original directors" and "continuing directors" shall not include any individual whose initial assumption of office occurred as a result

of an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents, by or on behalf of a person other than the Board; or

(ii) Any "person" (as defined below) who by the acquisition or aggregation of securities, is or becomes the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company representing 50% or more of the combined voting power of the Company's then outstanding securities ordinarily (and apart from rights accruing under special circumstances) having the right to vote at elections of directors (the "Base Capital Stock"); except that any change in the relative beneficial ownership of the Company's securities by any person resulting solely from a reduction in the aggregate number of outstanding shares of Base Capital Stock, and any decrease thereafter in such person's ownership of securities, shall be disregarded until such person increases in any manner, directly or indirectly, such person's beneficial ownership of any securities of the Company; or

(iii) The consummation of a merger or consolidation of the Company or a Subsidiary of the Company with or into another entity or any other corporate reorganization, if persons who were not stockholders of the Company immediately prior to such merger, consolidation or other reorganization own immediately after such merger, consolidation or other reorganization 50% or more of the voting power of the outstanding securities of each of (A) the Company (or its successor) and (B) any direct or indirect parent corporation of the Company (or its successor); or

(iv) The sale, transfer or other disposition of all or substantially all of the Company's assets.

For purposes of subsection (e)(i) above, the term "look-back" date shall mean the later of (1) the Effective Date or (2) the date 24 months prior to the date of the event that may constitute a Change in Control.

For purposes of subsection (e)(ii) above, the term "person" shall have the same meaning as when used in Sections 13(d) and 14(d) of the Exchange Act but shall exclude (1) a trustee or other fiduciary holding securities under an employee benefit plan maintained by the Company or a Parent or Subsidiary and (2) a corporation owned directly or indirectly by the stockholders of the Company in substantially the same proportions as their ownership of the Stock.

Any other provision of this Section 2(e) notwithstanding, a transaction shall not constitute a Change in Control if its sole purpose is to change the state of the Company's incorporation or to create a holding company that will be owned in substantially the same proportions by the persons who held the Company's securities immediately before such transaction, and a Change in Control shall not be deemed to occur if the Company files a registration statement with the United States Securities and Exchange Commission for the initial or secondary public offering of securities or debt of the Company to the public.

(g) "***Code***" shall mean the Internal Revenue Code of 1986, as amended.

(h) "***Committee***" shall mean the Compensation Committee as designated by the Board of Directors, which is authorized to administer the Plan, as described in Section 3 hereof.

(i) "***Company***" shall mean Veracyte, Inc., a Delaware corporation.

(j) "***Consultant***" shall mean a consultant or advisor who provides bona fide services to the Company, a Parent, a Subsidiary or an Affiliate as an independent contractor (not including service as a member of the Board of Directors) or a member of the board of directors of a Parent or a Subsidiary, in each case who is not an Employee.

(k) "***Employee***" shall mean any individual who is a common-law employee of the Company, a Parent, a Subsidiary or an Affiliate.

(l) "***Exchange Act***" shall mean the Securities Exchange Act of 1934, as amended.

(m) "***Exercise Price***" shall mean, in the case of an Option, the amount for which one Share may be purchased upon exercise of such Option, as specified in the applicable Stock Option Agreement. "Exercise Price," in the case of a SAR, shall mean an amount, as specified in the applicable SAR Agreement, which is subtracted from the Fair Market Value of one Share in determining the amount payable upon exercise of such SAR.

(n) "***Fair Market Value***" with respect to a Share, shall mean the market price of one Share, determined by the Committee as follows:

(i) If the Stock was traded over-the-counter on the date in question, then the Fair Market Value shall be equal to the last transaction price quoted for such date by the OTC Bulletin Board or, if not so quoted, shall be equal to the mean between the last reported representative bid and asked prices quoted for such date by the principal automated inter-dealer quotation system on which the Stock is quoted or, if the Stock is not quoted on any such system, by the OTC Link Quote system;

(ii) If the Stock was traded on any established stock exchange (such as the New York Stock Exchange or The NASDAQ Stock Market) or national market system on the date in question, then the Fair Market Value shall be equal to the closing price reported for such date by the applicable exchange or system; and

(iii) If none of the foregoing provisions is applicable, then the Fair Market Value shall be determined by the Committee in good faith on such basis as it deems appropriate.

In all cases, the determination of Fair Market Value by the Committee shall be conclusive and binding on all persons.

(o) "***ISO***" shall mean an employee incentive stock option described in Section 422 of the Code.

(p) "***Nonstatutory Option***" or "***NSO***" shall mean an employee stock option that is not an ISO.

(q) "***Option***" shall mean an ISO or Nonstatutory Option granted under the Plan and entitling the holder to purchase Shares.

(r) "***Outside Director***" shall mean a member of the Board of Directors who is not a common-law employee of, or paid consultant to, the Company, a Parent or a Subsidiary.

(s) "***Parent***" shall mean any corporation (other than the Company) in an unbroken chain of corporations ending with the Company, if each of the corporations other than the Company owns stock possessing 50% or more of the total combined voting power of all classes of stock in one of the other corporations in such chain. A corporation that attains the status of a Parent on a date after the adoption of the Plan shall be a Parent commencing as of such date.

(t) "***Participant***" shall mean a person who holds an Award.

(u) "***Performance Based Award***" shall mean any Restricted Share Award, Stock Unit Award or Cash-Based Award granted to a Participant that is intended to qualify as "performance-based compensation" under Section 162(m) of the Code.

(v) "***Plan***" shall mean this 2013 Stock Incentive Plan of Veracyte, Inc., as amended from time to time.

(w) "***Purchase Price***" shall mean the consideration for which one Share may be acquired under the Plan (other than upon exercise of an Option), as specified by the Committee.

(x) "***Restricted Share***" shall mean a Share awarded under the Plan.

(y) "***SAR***" shall mean a stock appreciation right granted under the Plan.

(z) "***Service***" shall mean service as an Employee, Consultant or Outside Director, subject to such further limitations as may be set forth in the Plan or the applicable Award Agreement. Service does not terminate when an Employee goes on a bona fide leave of absence, that was approved by the Company in writing, if the terms of the leave provide for continued Service crediting, or when continued Service crediting is required by applicable law. However, for purposes of determining whether an Option is entitled to ISO status, an Employee's employment will be treated as terminating three months after such Employee went on leave, unless such Employee's right to return to active work is guaranteed by law or by a contract. Service terminates in any event when the approved leave ends, unless such Employee immediately returns to active work. The Company determines which leaves of absence count toward Service, and when Service terminates for all purposes under the Plan.

(aa) "***Share***" shall mean one share of Stock, as adjusted in accordance with Section 12 (if applicable).

(ab) "***Stock***" shall mean the Common Stock of the Company.

(ac) "***Stock Unit***" shall mean a bookkeeping entry representing the Company's obligation to deliver one Share (or distribute cash) on a future date in accordance with the provisions of a Stock Unit Award Agreement.

(ad) "***Subsidiary***" shall mean any corporation, if the Company and/or one or more other Subsidiaries own not less than 50% of the total combined voting power of all classes of outstanding stock of such corporation. A corporation that attains the status of a Subsidiary on a date after the adoption of the Plan shall be considered a Subsidiary commencing as of such date.

(ae) "***Total and Permanent Disability***" shall mean any permanent and total disability as defined by Section 22(e)(3) of the Code.

SECTION 3. ADMINISTRATION.

(a) Committee Composition. The Plan shall be administered by a Committee appointed by the Board, or by the Board acting as the Committee. The Committee shall consist of two or more directors of the Company. In addition, to the extent required by the Board, the composition of the Committee shall satisfy (i) such requirements as the Securities and Exchange Commission may establish for administrators acting under plans intended to qualify for exemption under Rule 16b-3 (or its successor) under the Exchange Act; and (ii) such requirements as the Internal Revenue Service may establish for outside directors acting under plans intended to qualify for exemption under Section 162(m)(4)(C) of the Code.

(b) Committee for Non-Officer Grants. The Board may also appoint one or more separate committees of the Board, each composed of one or more directors of the Company who need not satisfy the requirements of Section 3(a), who may administer the Plan with respect to Employees who are not considered officers or directors of the Company under Section 16 of the Exchange Act, may grant Awards under the Plan to such Employees and may determine all terms of such Awards. Within the limitations of the preceding sentence, any reference in the Plan to the Committee shall include such committee or committees appointed pursuant to the preceding sentence. To the extent permitted by applicable laws, the Board of Directors may also authorize one or more officers of the Company to designate Employees, other than officers under Section 16 of the Exchange Act, to receive Awards and/or to determine the number of such Awards to be received by such persons; provided, however, that the Board of Directors shall specify the total number of Awards that such officers may so grant.

(c) Committee Procedures. The Board of Directors shall designate one of the members of the Committee as chairman. The Committee may hold meetings at such times and places as it shall determine. The acts of a majority of the Committee members present at meetings at which a quorum exists, or acts reduced to or approved in writing (including via email) by all Committee members, shall be valid acts of the Committee.

(d) Committee Responsibilities. Subject to the provisions of the Plan, the Committee shall have full authority and discretion to take the following actions:

(i) To interpret the Plan and to apply its provisions;

(ii) To adopt, amend or rescind rules, procedures and forms relating to the Plan;

(iii) To adopt, amend or terminate sub-plans established for the purpose of satisfying applicable foreign laws including qualifying for preferred tax treatment under applicable foreign tax laws;

(iv) To authorize any person to execute, on behalf of the Company, any instrument required to carry out the purposes of the Plan;

(v) To determine when Awards are to be granted under the Plan;

(vi) To select the Participants to whom Awards are to be granted;

(vii) To determine the type of Award and number of Shares or amount of cash to be made subject to each Award;

(viii) To prescribe the terms and conditions of each Award, including (without limitation) the Exercise Price and Purchase Price, and the vesting or duration of the Award (including accelerating the vesting of Awards, either at the time of the Award or thereafter, without the consent of the Participant), to determine whether an Option is to be classified as an ISO or as a Nonstatutory Option, and to specify the provisions of the agreement relating to such Award;

(ix) To amend any outstanding Award Agreement, subject to applicable legal restrictions and to the consent of the Participant if the Participant’s rights or obligations would be materially impaired;

(x) To prescribe the consideration for the grant of each Award or other right under the Plan and to determine the sufficiency of such consideration;

(xi) To determine the disposition of each Award or other right under the Plan in the event of a Participant's divorce or dissolution of marriage;

(xii) To determine whether Awards under the Plan will be granted in replacement of other grants under an incentive or other compensation plan of an acquired business;

(xiii) To correct any defect, supply any omission, or reconcile any inconsistency in the Plan or any Award Agreement;

(xiv) To establish or verify the extent of satisfaction of any performance goals or other conditions applicable to the grant, issuance, exercisability, vesting and/or ability to retain any Award; and

(xv) To take any other actions deemed necessary or advisable for the administration of the Plan.

Subject to the requirements of applicable law, the Committee may designate persons other than members of the Committee to carry out its responsibilities and may prescribe such conditions and limitations as it may deem appropriate, except that the Committee may not delegate its authority with regard to the selection for participation of or the granting of Awards under the Plan to persons subject to Section 16 of the Exchange Act. All decisions, interpretations and other actions of the Committee shall be final and binding on all Participants and all persons deriving their rights from a Participant. No member of the Committee shall be liable for any action that he has taken or has failed to take in good faith with respect to the Plan or any Award under the Plan.

SECTION 4. ELIGIBILITY.

(a) General Rule. Only Employees, Consultants and Outside Directors shall be eligible for the grant of Awards. Only common-law employees of the Company, a Parent or a Subsidiary shall be eligible for the grant of ISOs.

(b) Automatic Grants to Outside Directors.

(i) Each Outside Director who first joins the Board of Directors on or after the Effective Date, and who was not previously an Employee, shall receive a Nonstatutory Option, subject to approval of the Plan by the Company's stockholders, to purchase 35,000 Shares (subject to adjustment under Section 12), on the date of his or her election to the Board of Directors. Options granted under this Section 4(b)(i) following May 23, 2017 shall vest as follows: one-third (1/3) of the Shares subject to each Option granted under this Section 4(b)(i) shall vest and become exercisable on each of the first, second and third annual anniversaries of the date of grant. Notwithstanding the foregoing, each such Option shall become vested and exercisable in full if a Change in Control occurs with respect to the Company during the Participant's Service.

(ii) On the first business day following the conclusion of each regular annual meeting of the Company's stockholders, commencing with the annual meeting occurring after the Effective Date, each Outside Director who was not elected to the Board for the first time at such meeting and who will continue serving as a member of the Board of Directors thereafter shall receive an Option to purchase 10,000 Shares (subject to adjustment under Section 12), provided that such Outside Director has served on the Board of Directors for at least six months. Each Option granted under this Section 4(b)(ii) shall vest and become exercisable on the first anniversary of the date of grant; provided, however, that each such Option shall become vested and exercisable in full immediately prior to the next regular annual meeting of the Company's

stockholders following such date of grant in the event such meeting occurs prior to such first anniversary date. Notwithstanding the foregoing, each Option granted under this Section 4(b)(ii) shall become vested and exercisable in full if a Change in Control occurs with respect to the Company during the Participant's Service.

(iii) The Exercise Price of all Nonstatutory Options granted to an Outside Director under this Section 4(b) shall be equal to 100% of the Fair Market Value of a Share on the date of grant, payable in one of the forms described in Section 8(a), (b), (d), (e), (f) or (h).

(iv) All Nonstatutory Options granted to an Outside Director under this Section 4(b) shall terminate on the earlier of (A) the day before the tenth anniversary of the date of grant of such Options or (B) the date twelve months after the termination of such Outside Director's Service for any reason; provided, however, that any such Options that are not vested upon the termination of the Outside Director's Service as a member of the Board of Directors for any reason shall terminate immediately and may not be exercised.

(v) The Board of Directors or the Committee in its discretion may change and otherwise revise the terms of the Nonstatutory Options granted to Outside Directors under this Section 4(b), including, without limitation, the number of Shares subject thereto, the type of Award to be granted under this Section 4(b), for Options or other Awards granted on or after the date the Board of Directors or Committee determines to make any such change or revision.

(c) Ten-Percent Stockholders. An Employee who owns more than 10% of the total combined voting power of all classes of outstanding stock of the Company, a Parent or Subsidiary shall not be eligible for the grant of an ISO unless such grant satisfies the requirements of Section 422(c)(5) of the Code.

(d) Attribution Rules. For purposes of Section 4(c) above, in determining stock ownership, an Employee shall be deemed to own the stock owned, directly or indirectly, by or for such Employee's brothers, sisters, spouse, ancestors and lineal descendants. Stock owned, directly or indirectly, by or for a corporation, partnership, estate or trust shall be deemed to be owned proportionately by or for its stockholders, partners or beneficiaries.

(e) Outstanding Stock. For purposes of Section 4(c) above, "outstanding stock" shall include all stock actually issued and outstanding immediately after the grant. "Outstanding stock" shall not include shares authorized for issuance under outstanding options held by the Employee or by any other person.

SECTION 5. STOCK SUBJECT TO PLAN.

(a) Basic Limitation. Shares offered under the Plan shall be authorized but unissued Shares or treasury Shares. The aggregate number of Shares authorized for issuance as Awards under the Plan shall not exceed the sum of (x) 1,700,000 Shares, plus (y) the sum of the number of Shares subject to outstanding awards under the Company's 2008 Stock Plan (the "Predecessor Plan") on the Effective Date that are subsequently forfeited or terminated for any reason before being exercised or settled, plus the number of Shares subject to vesting restrictions under the Predecessor Plan on the Effective Date that are subsequently forfeited, plus the number of reserved Shares not issued or subject to outstanding grants under the Predecessor Plan on the Effective Date, plus (z) an annual increase on the first day of each fiscal year, for a period of not more than ten years, beginning on January 1, 2014, and ending on (and including) January 1, 2023, in an amount equal to the lesser of (i) 4% of the outstanding Shares on the last day of the immediately preceding fiscal or (ii) if the Board acts prior to the first day of the fiscal year, such lesser amount (including zero) that the Board determines for purposes of the annual increase for that fiscal year. Notwithstanding the foregoing, the number of Shares that may be delivered in the aggregate pursuant to the exercise of ISOs granted under the Plan shall not exceed 9,500,000 Shares plus, to the extent allowable under Section 422 of the Code and

the Treasury Regulations promulgated thereunder, any Shares that become available for issuance under the Plan pursuant to Section 5(c). The limitations of this Section 5(a) shall be subject to adjustment pursuant to Section 12. The number of Shares that are subject to Awards outstanding at any time under the Plan shall not exceed the number of Shares which then remain available for issuance under the Plan. The Company shall at all times reserve and keep available sufficient Shares to satisfy the requirements of the Plan.

(b) Section 162(m) Award Limitation. Notwithstanding any contrary provisions of the Plan, and subject to the provisions of Section 12, during any time when the transition period relief under Treasury Regulation Section 1.162-27(f)(2) has lapsed or does not apply, and with respect to any Option or SAR intended to qualify as "performance-based compensation" under Section 162(m) of the Code, no Participant eligible for an Award may receive Options or SARs under the Plan in any calendar year that relate to an aggregate of more than 1,000,000 Shares, and no more than two times this amount in the first year of employment. To the extent required by Section 162(m) of the Code or the regulations thereunder, in applying the foregoing limitation with respect to a Participant, if any Option or SAR is canceled, the canceled Option or SAR shall continue to count against the maximum number of Shares with respect to which Options and SARs may be granted to the Participant. For this purpose, the repricing of an Option or SAR shall be treated as the cancellation of the existing Option or SAR and the grant of a new Option or SAR.

(c) Additional Shares. If Restricted Shares or Shares issued upon the exercise of Options are forfeited, then such Shares shall again become available for Awards under the Plan. If Stock Units, Options or SARs are forfeited or terminate for any reason before being exercised or settled, or an Award is settled in cash without the delivery of Shares to the holder, then any Shares subject to the Award shall again become available for Awards under the Plan. Only the number of *Shares* (if any) actually issued in settlement of Awards (and not forfeited) shall reduce the number available in Section 5(a) and the balance shall again become available for Awards under the Plan. Any Shares withheld to satisfy the grant or exercise price or tax withholding obligation pursuant to any Award shall again become available for Awards under the Plan. Notwithstanding the foregoing provisions of this Section 5(c), Shares that have actually been issued shall not again become available for Awards under the Plan, except for Shares that are forfeited and do not become vested.

(d) Substitution and Assumption of Awards. The Committee may make Awards under the Plan by assumption, substitution or *replacement* of stock options, stock appreciation rights, stock units or similar awards granted by another entity (including a Parent or Subsidiary), if such assumption, substitution or replacement is in connection with an asset acquisition, stock acquisition, merger, consolidation or similar transaction involving the Company (and/or its Parent or Subsidiary) and such other entity (and/or its affiliate). The terms of such assumed, substituted or replaced Awards shall be as the Committee, in its discretion, determines is appropriate. Any such substitute or assumed Awards shall not count against the Share limitation set forth in Section 5(a).

SECTION 6. RESTRICTED SHARES.

(a) Restricted Share Award Agreement. Each grant of Restricted Shares under the Plan shall be evidenced by a Restricted Share Award Agreement between the Participant and the Company. Such Restricted Shares shall be subject to all applicable terms of the Plan and may be subject to any other terms that are not inconsistent with the Plan. The provisions of the various Restricted Share Award Agreements entered into under the Plan need not be identical.

(b) Payment for Awards. Restricted Shares may be sold or awarded under the Plan for such consideration as the Committee *may* determine, including (without limitation) cash, cash equivalents, full-recourse promissory notes, past services and future services.

(c) Vesting. Each Award of Restricted Shares may or may not be subject to vesting. Vesting shall occur, in full or in installments, upon satisfaction of the conditions specified in the Restricted Share Award Agreement. A Restricted Share Award Agreement may provide for accelerated vesting in the event of the Participant's death, disability or retirement or other events. The Committee may determine, at the time of granting Restricted Shares or thereafter, that all or part of such Restricted Shares shall become vested in the event that a Change in Control occurs with respect to the Company.

(d) Voting and Dividend Rights. The holders of Restricted Shares awarded under the Plan shall have the same voting, dividend and other rights as the Company's other stockholders. A Restricted Share Award Agreement, however, may require that the holders of Restricted Shares invest any cash dividends received in additional Restricted Shares. Such additional Restricted Shares shall be subject to the same conditions and restrictions as the Award with respect to which the dividends were paid.

(e) Restrictions on Transfer of Shares. Restricted Shares shall be subject to such rights of repurchase, rights of first refusal or other *restrictions* as the Committee may determine. Such restrictions shall be set forth in the applicable Restricted Share Award Agreement and shall apply in addition to any general restrictions that may apply to all holders of Shares.

SECTION 7. TERMS AND CONDITIONS OF OPTIONS.

(a) Stock Option Award Agreement. Each grant of an Option under the Plan shall be evidenced by a Stock Option Award Agreement *between* the Participant and the Company. Such Option shall be subject to all applicable terms and conditions of the Plan and may be subject to any other terms and conditions which are not inconsistent with the Plan and which the Committee deems appropriate for inclusion in a Stock Option Award Agreement. The Stock Option Award Agreement shall specify whether the Option is an ISO or an NSO. The provisions of the various Stock Option Award Agreements entered into under the Plan need not be identical.

(b) Number of Shares. Each Stock Option Award Agreement shall specify the number of Shares that are subject to the Option and shall *provide* for the adjustment of such number in accordance with Section 12.

(c) Exercise Price. Each Stock Option Award Agreement shall specify the Exercise Price. The Exercise Price of an ISO shall not be less than 100% of the Fair Market Value of a Share on the date of grant, except as otherwise provided in 4(c), and the *Exercise* Price of an NSO shall not be less 100% of the Fair Market Value of a Share on the date of grant. Notwithstanding the foregoing, Options may be granted with an Exercise Price of less than 100% of the Fair Market Value per Share on the date of grant pursuant to a transaction described in, and in a manner consistent with, Section 424(a) of the Code. Subject to the foregoing in this Section 7(c), the Exercise Price under any Option shall be determined by the Committee in its sole discretion. The Exercise Price shall be payable in one of the forms described in Section 8.

(d) Withholding Taxes. As a condition to the exercise of an Option, the Participant shall make such arrangements as the Committee may *require* for the satisfaction of any federal, state, local or foreign withholding tax obligations that may arise in connection with such exercise. The Participant shall also make such arrangements as the Committee may require for the satisfaction of any federal, state, local or foreign withholding tax obligations that may arise in connection with the disposition of Shares acquired by exercising an Option.

(e) Exercisability and Term. Each Stock Option Award Agreement shall specify the date when all or any installment of the Option is to become exercisable. The Stock Option Award Agreement shall also specify the term of the Option; provided that the *term* of an ISO shall in no event exceed 10 years from the date of grant (five years for ISOs granted to Employees described in Section 4(c)). A Stock Option Award Agreement may provide for accelerated exercisability in the event of the Participant's death, disability, or retirement or other events and may provide for expiration prior to the end of its term in the event of the termination of the Participant's Service. Options may be awarded in combination with SARs, and such an Award may provide that the Options will not be exercisable unless the related SARs are forfeited. Subject to the foregoing in this Section 7(e), the Committee at its sole discretion shall determine when all or any installment of an Option is to become exercisable and when an Option is to expire.

(f) Exercise of Options. Each Stock Option Award Agreement shall set forth the extent to which the Participant shall have the right to exercise the Option following termination of the Participant's Service with the Company and its Subsidiaries, and the right to exercise the Option of any executors or administrators of the Participant's estate or any person who has acquired such Option(s) directly from the Participant by bequest or inheritance. Such provisions shall be determined in the sole discretion of the Committee, need not be uniform among all Options issued pursuant to the Plan, and may reflect distinctions based on the reasons for termination of Service.

(g) Effect of Change in Control. The Committee may determine, at the time of granting an Option or thereafter, that such Option *shall* become exercisable as to all or part of the Shares subject to such Option in the event that a Change in Control occurs with respect to the Company.

(h) No Rights as a Stockholder. A Participant shall have no rights as a stockholder with respect to any Shares covered by his Option until the date of the issuance of a stock certificate for such Shares. No adjustments shall be made, except as provided in Section 12.

(i) Modification, Extension and Renewal of Options. Within the limitations of the Plan, the Committee may modify, extend or renew outstanding options or may accept the cancellation of outstanding options (to the extent not previously exercised), whether or not granted hereunder, in return for the grant of new Options for the same or a different number of Shares and at the same or a different Exercise Price, or in return for the grant of a different Award for the same or a different number of Shares, without stockholder approval. The foregoing notwithstanding, no modification of an Option shall, without the consent of the Participant, materially impair his or her rights or obligations under such Option.

(j) Restrictions on Transfer of Shares. Any Shares issued upon exercise of an Option shall be subject to such special forfeiture conditions, rights of repurchase, rights of first refusal and other transfer restrictions as the Committee may determine. Such restrictions shall be set forth in the applicable Stock Option Award Agreement and shall apply in addition to any general restrictions that may apply to all holders of Shares.

(k) Buyout Provisions. The Committee may at any time (a) offer to buy out for a payment in cash or cash equivalents an Option previously granted or (b) authorize a Participant to elect to cash out an Option previously granted, in either case at *such* time and based upon such terms and conditions as the Committee shall establish.

SECTION 8. PAYMENT FOR SHARES.

(a) General Rule. The entire Exercise Price or Purchase Price of Shares issued under the Plan shall be payable in lawful money of the *United* States of America at the time when such Shares are purchased, except as provided in Section 8(b) through Section 8(h) below.

(b) Surrender of Stock. To the extent that a Stock Option Award Agreement so provides, payment may be made all or in part by surrendering, or attesting to the ownership of, Shares which have already been owned by the Participant or his representative. Such Shares shall be valued at their Fair Market Value on the date when the new Shares are purchased under the Plan. The Participant shall not surrender, or attest to the ownership of, Shares in payment of the Exercise Price if such action would cause the Company to recognize compensation expense (or additional compensation expense) with respect to the Option for financial reporting purposes.

(c) Services Rendered. At the discretion of the Committee, Shares may be awarded under the Plan in consideration of services rendered to the Company or a Subsidiary. If Shares are awarded without the payment of a Purchase Price in cash, the Committee shall make a determination (at the time of the Award) of the value of the services rendered by the Participant and the sufficiency of the consideration to meet the requirements of Section 6(b).

(d) Cashless Exercise. To the extent that a Stock Option Award Agreement so provides, payment may be made all or in part by delivery (on a form prescribed by the Committee) of an irrevocable direction to a securities broker to sell Shares and to deliver all or part of the sale proceeds to the Company in payment of the aggregate Exercise Price.

(e) Exercise/Pledge. To the extent that a Stock Option Award Agreement so provides, payment may be made all or in part by delivery (on a form prescribed by the Committee) of an irrevocable direction to a securities broker or lender to pledge *Shares*, as security for a loan, and to deliver all or part of the loan proceeds to the Company in payment of the aggregate Exercise Price.

(f) Net Exercise. To the extent that a Stock Option Award Agreement so provides, by a “net exercise” arrangement pursuant to which *the* number of Shares issuable upon exercise of the Option shall be reduced by the largest whole number of Shares having an aggregate Fair Market Value that does not exceed the aggregate exercise price (plus tax withholdings, if applicable) and any remaining balance of the aggregate exercise price (and/or applicable tax withholdings) not satisfied by such reduction in the number of whole Shares to be issued shall be paid by the Optionee in cash other form of payment permitted under the Stock Option Agreement.

(g) Promissory Note. To the extent that a Stock Option Award Agreement or Restricted Share Award Agreement so provides, payment may be made all or in part by delivering (on a form prescribed by the Company) a full-recourse promissory note.

(h) Other Forms of Payment. To the extent that a Stock Option Award Agreement or Restricted Share Award Agreement so provides, payment may be made in any other form that is consistent with applicable laws, regulations and rules.

(i) Limitations under Applicable Law. Notwithstanding anything herein or in a Stock Option Award Agreement or Restricted Share Award Agreement to the contrary, payment may not be made in any form that is unlawful, as determined by the Committee in its sole discretion.

SECTION 9. STOCK APPRECIATION RIGHTS.

(a) SAR Award Agreement. Each grant of a SAR under the Plan shall be evidenced by a SAR Award Agreement between the Participant and the Company. Such SAR shall be subject to all applicable terms of the Plan and may be subject to any other terms that are not inconsistent with the Plan. The provisions of the various SAR Award Agreements entered into under the Plan need not be identical.

(b) Number of Shares. Each SAR Award Agreement shall specify the number of Shares to which the SAR pertains and shall provide for the adjustment of such number in accordance with Section 12.

(c) Exercise Price. Each SAR Award Agreement shall specify the Exercise Price. The Exercise Price of a SAR shall not be less *than* 100% of the Fair Market Value of a Share on the date of grant. Notwithstanding the foregoing, SARs may be granted with an Exercise Price of less than 100% of the Fair Market Value per Share on the date of grant pursuant to a transaction described in, and in a manner consistent with, Section 424(a) of the Code. Subject to the foregoing in this Section 9(c), the Exercise Price under any SAR shall be determined by the Committee in its sole discretion.

(d) Exercisability and Term. Each SAR Award Agreement shall specify the date when all or any installment of the SAR is to *become* exercisable. The SAR Award Agreement shall also specify the term of the SAR. A SAR Award Agreement may provide for accelerated exercisability in the event of the Participant's death, disability or retirement or other events and may provide for expiration prior to the end of its term in the event of the termination of the Participant's service. SARs may be awarded in combination with Options, and such an Award may provide that the SARs will not be exercisable unless the related Options are forfeited. A SAR may be included in an ISO only at the time of grant but may be included in an NSO at the time of grant or thereafter. A SAR granted under the Plan may provide that it will be exercisable only in the event of a Change in Control.

(e) Effect of Change in Control. The Committee may determine, at the time of granting a SAR or thereafter, that such SAR shall become fully exercisable as to all Common Shares subject to such SAR in the event that a Change in Control occurs with respect to the Company.

(f) Exercise of SARs. Upon exercise of a SAR, the Participant (or any person having the right to exercise the SAR after his or her death) shall receive from the Company (a) Shares, (b) cash or (c) a combination of Shares and cash, as the Committee shall determine. The amount of cash and/or the Fair Market Value of Shares received upon exercise of SARs shall, in the aggregate, be equal to the amount by which the Fair Market Value (on the date of surrender) of the Shares subject to the SARs exceeds the Exercise Price.

(g) Modification or Assumption of SARs. Within the limitations of the Plan, the Committee may modify, extend or assume outstanding SARs or may accept the cancellation of outstanding SARs (whether granted by the Company or by another issuer) in return for the grant of new SARs for the same or a different number of shares and at the same or a different exercise price, or in return for the grant of a different Award for the same or a different number of Shares, without stockholder approval. The foregoing notwithstanding, no modification of a SAR shall, without the consent of the holder, materially impair his or her rights or obligations under such SAR.

(h) Buyout Provisions. The Committee may at any time (a) offer to buy out for a payment in cash or cash equivalents a SAR previously granted, or (b) authorize a Participant to elect to cash out a SAR

previously granted, in either case at such time and based upon such terms and conditions as the Committee shall establish.

SECTION 10. STOCK UNITS.

(a) Stock Unit Award Agreement. Each grant of Stock Units under the Plan shall be evidenced by a Stock Unit Award Agreement between the Participant and the Company. Such Stock Units shall be subject to all applicable terms of the Plan and may be subject to any other terms that are not inconsistent with the Plan. The provisions of the various Stock Unit Award Agreements entered into under the Plan need not be identical.

(b) Payment for Awards. To the extent that an Award is granted in the form of Stock Units, no cash consideration shall be required of the Award recipients.

(c) Vesting Conditions. Each Award of Stock Units may or may not be subject to vesting. Vesting shall occur, in full or in installments, upon satisfaction of the conditions specified in the Stock Unit Award Agreement. A Stock Unit Award Agreement may provide for accelerated vesting in the event of the Participant's death, disability or retirement or other events. The Committee may determine, at the time of granting Stock Units or thereafter, that all or part of such Stock Units shall become vested in the event that a Change in Control occurs with respect to the Company.

(d) Voting and Dividend Rights. The holders of Stock Units shall have no voting rights. Prior to settlement or forfeiture, any Stock Unit awarded under the Plan may, at the Committee's discretion, carry with it a right to dividend equivalents. Such right entitles the holder to be credited with an amount equal to all cash dividends paid on one Share while the Stock Unit is outstanding. Dividend equivalents may be converted into additional Stock Units. Settlement of dividend equivalents may be made in the form of cash, in the form of Shares, or in a combination of both. Prior to distribution, any dividend equivalents which are not paid shall be subject to the same conditions and restrictions (including without limitation, any forfeiture conditions) as the Stock Units to which they attach.

(e) Form and Time of Settlement of Stock Units. Settlement of vested Stock Units may be made in the form of (a) cash, (b) Shares or (c) any combination of both, as determined by the Committee. The actual number of Stock Units eligible for settlement may be larger or smaller than the number included in the original Award, based on predetermined performance factors. Methods of converting Stock Units into cash may include (without limitation) a method based on the average Fair Market Value of Shares over a series of trading days. A Stock Unit Award Agreement may provide that vested Stock Units may be settled in a lump sum or in installments. A Stock Unit Award Agreement may provide that the distribution may occur or commence when all vesting conditions applicable to the Stock Units have been satisfied or have lapsed, or it may be deferred to any later date, subject to compliance with Section 409A of the Code. The amount of a deferred distribution may be increased by an interest factor or by dividend equivalents. Until an Award of Stock Units is settled, the number of such Stock Units shall be subject to adjustment pursuant to Section 12.

(f) Death of Participant. Any Stock Unit Award that becomes payable after the Participant's death shall be distributed to the Participant's beneficiary or beneficiaries. Each recipient of a Stock Unit Award under the Plan shall designate one or more beneficiaries for this purpose by filing the prescribed form with the Company. A beneficiary designation may be changed by filing the prescribed form with the Company at any time before the Participant's death. If no beneficiary was designated or if no designated beneficiary survives the Participant, then any Stock Units Award that becomes payable after the Participant's death shall be distributed to the Participant's estate.

(g) Creditors' Rights. A holder of Stock Units shall have no rights other than those of a general creditor of the Company. Stock Units represent an unfunded and unsecured obligation of the Company, subject to the terms and conditions of the applicable Stock Unit Award Agreement.

SECTION 11. CASH-BASED AWARDS

The Committee may, in its sole discretion, grant Cash-Based Awards to any Participant in such number or amount and upon such terms, and subject to such conditions, as the Committee shall determine at the time of grant and specify in an applicable Award Agreement. The Committee shall determine the maximum duration of the Cash-Based Award, the amount of cash which may be payable pursuant to the Cash-Based Award, the conditions upon which the Cash-Based Award shall become vested or payable, and such other provisions as the Committee shall determine. Each Cash-Based Award shall specify a cash-denominated payment amount, formula or payment ranges as determined by the Committee. Payment, if any, with respect to a Cash-Based Award shall be made in accordance with the terms of the Award and may be made in cash or in shares of Stock, as the Committee determines.

SECTION 12. ADJUSTMENT OF SHARES.

(a) Adjustments. In the event of a subdivision of the outstanding Stock, a declaration of a dividend payable in Shares, a declaration of a dividend payable in a form other than Shares in an amount that has a material effect on the price of Shares, a combination or consolidation of the outstanding Stock (by reclassification or otherwise) into a lesser number of Shares, a recapitalization, a spin-off or a similar occurrence, the Committee shall make appropriate and equitable adjustments in:

(i) The number of Shares available for future Awards under Section 5;

(ii) The limitations set forth in Sections 5(a) and (b) and Section 19;

(iii) The number of NSOs to be granted to Outside Directors under Section 4(b);

(iv) The number of Shares covered by each outstanding Award; and

(v) The Exercise Price under each outstanding Option and SAR.

(b) Dissolution or Liquidation. To the extent not previously exercised or settled, Options, SARs and Stock Units shall terminate immediately prior to the dissolution or liquidation of the Company.

(c) Reorganizations. In the event that the Company is a party to a merger or other reorganization, outstanding Awards shall be subject to the agreement of merger or reorganization. Subject to compliance with Section 409A of the Code, such agreement shall provide for:

(i) The continuation of the outstanding Awards by the Company, if the Company is a surviving corporation;

(ii) The assumption of the outstanding Awards by the surviving corporation or its parent or subsidiary;

(iii) The substitution by the surviving corporation or its parent or subsidiary of its own awards for the outstanding Awards;

(iv) Immediate vesting, exercisability and settlement of outstanding Awards followed by the cancellation of such Awards upon or immediately prior to the effectiveness of such transaction; or

(v) Settlement of the intrinsic value of the outstanding Awards (whether or not then vested or exercisable) in cash or cash equivalents or equity (including cash or equity subject to deferred vesting and delivery consistent with the vesting restrictions applicable to such Awards or the underlying Shares) followed by the cancellation of such Awards (and, for the avoidance of doubt, if as of the date of the occurrence of the transaction the Committee determines in good faith that no amount would have been attained upon the exercise of such Award or realization of the Participant's rights, then such Award may be terminated by the Company without payment); in each case without the Participant's consent. Any acceleration of payment of an amount that is subject to section 409A of the Code will be delayed, if necessary, until the earliest time that such payment would be permissible under Section 409A without triggering any additional taxes applicable under Section 409A.

The Company will have no obligation to treat all Awards, all Awards held by a Participant, or all Awards of the same type, similarly.

(d) Reservation of Rights. Except as provided in this Section 12, a Participant shall have no rights by reason of any subdivision or consolidation of shares of stock of any class, the payment of any dividend or any other increase or decrease in the number of shares of stock of any class. Any issue by the Company of shares of stock of any class, or securities convertible into shares of stock of any class, shall not affect, and no adjustment by reason thereof shall be made with respect to, the number or Exercise Price of Shares subject to an Award. The grant of an Award pursuant to the Plan shall not affect in any way the right or power of the Company to make adjustments, reclassifications, reorganizations or changes of its capital or business structure, to merge or consolidate or to dissolve, liquidate, sell or transfer all or any part of its business or assets. In the event of any change affecting the Shares or the Exercise Price of Shares subject to an Award, including a merger or other reorganization, for reasons of administrative convenience, the Company in its sole discretion may refuse to permit the exercise of any Award during a period of up to thirty (30) days prior to the occurrence of such event.

SECTION 13. DEFERRAL OF AWARDS.

(a) Committee Powers. Subject to compliance with Section 409A of the Code, the Committee (in its sole discretion) may permit or require a Participant to:

(i) Have cash that otherwise would be paid to such Participant as a result of the exercise of a SAR or the settlement of Stock Units credited to a deferred compensation account established for such Participant by the Committee as an entry on the Company's books;

(ii) Have Shares that otherwise would be delivered to such Participant as a result of the exercise of an Option or SAR converted into an equal number of Stock Units; or

(iii) Have Shares that otherwise would be delivered to such Participant as a result of the exercise of an Option or SAR or the settlement of Stock Units converted into amounts credited to a deferred compensation account established for such Participant by the Committee as an entry on the Company's books. Such amounts shall be determined by reference to the Fair Market Value of such Shares as of the date when they otherwise would have been delivered to such Participant.

(b) General Rules. A deferred compensation account established under this Section 13 may be credited with interest or other forms of investment return, as determined by the Committee. A Participant for whom such an account is established shall have no rights other than those of a general creditor of the Company. Such an account shall represent an unfunded and unsecured obligation of the Company and shall be subject to the terms and conditions of the applicable agreement between such Participant and the Company. If the deferral or conversion of Awards is permitted or required, the Committee (in its sole discretion) may establish rules, procedures and forms pertaining to such Awards, including (without limitation) the settlement of deferred compensation accounts established under this Section 13.

SECTION 14. AWARDS UNDER OTHER PLANS.

The Company may grant awards under other plans or programs. Such awards may be settled in the form of Shares issued under this Plan. Such Shares shall be treated for all purposes under the Plan like Shares issued in settlement of Stock Units and shall, when issued, reduce the number of Shares available under Section 5.

SECTION 15. PAYMENT OF DIRECTOR'S FEES IN SECURITIES.

(a) Effective Date. No provision of this Section 15 shall be effective unless and until the Board has determined to implement such provision.

(b) Elections to Receive NSOs, SARs, Restricted Shares or Stock Units. An Outside Director may elect to receive his or her annual retainer payments and/or meeting fees from the Company in the form of cash, NSOs, SARs, Restricted Shares or Stock Units, or a combination thereof, as determined by the Board. Alternatively, the Board may mandate payment in any of such alternative forms. Such NSOs, SARs, Restricted Shares and Stock Units shall be issued under the Plan. An election under this Section 15 shall be filed with the Company on the prescribed form.

(c) Number and Terms of NSOs, SARs, Restricted Shares or Stock Units. The number of NSOs, SARs, Restricted Shares or Stock Units to be granted to Outside Directors in lieu of annual retainers and meeting fees that would otherwise be paid in cash shall be calculated in a manner determined by the Board. The terms of such NSOs, SARs, Restricted Shares or Stock Units shall also be determined by the Board.

SECTION 16. LEGAL AND REGULATORY REQUIREMENTS.

Shares shall not be issued under the Plan unless the issuance and delivery of such Shares complies with (or is exempt from) all applicable requirements of law, including (without limitation) the Securities Act of 1933, as amended, the rules and regulations promulgated thereunder, state securities laws and regulations and the regulations of any stock exchange on which the Company's securities may then be listed, and the Company has obtained the approval or favorable ruling from any governmental agency which the Company determines is necessary or advisable. The Company shall not be liable to a Participant or other persons as to: (a) the non-issuance or sale of Shares as to which the Company has not obtained from any regulatory body having jurisdiction the authority deemed by the Company's counsel to be necessary to the lawful issuance and sale of any Shares under the Plan; and (b) any tax consequences expected, but not realized, by any Participant or other person due to the receipt, exercise or settlement of any Award granted under the Plan.

SECTION 17. TAXES.

(a) Withholding Taxes. To the extent required by applicable federal, state, local or foreign law, a Participant or his or her successor shall make arrangements satisfactory to the Company for the satisfaction

of any withholding tax obligations that arise in connection with the Plan commensurate with the delivery of Shares pursuant to exercise or settlement of any Award. The Company shall not be required to issue any Shares or make any cash payment under the Plan until such obligations are satisfied. Unless otherwise determined by the Committee, the Fair Market Value of the Shares will be determined as of the date that the taxes are required to be withheld and such Shares will be valued based on the value of the actual trade or, if there is none, the Fair Market Value of the Shares as of the previous trading day.

(b) Share Withholding. The Committee may permit a Participant to satisfy all or part of his or her withholding or income tax obligations by having the Company withhold all or a portion of any Shares that otherwise would be issued to him or her or by surrendering all or a portion of any Shares that he or she previously acquired. The Company may withhold or account for these tax obligations by considering applicable statutory withholding rates or other applicable withholding rates, including up to the maximum permissible statutory tax rate for the applicable tax jurisdiction, to the extent consistent with applicable laws.

(c) Section 409A. Each Award that provides for "nonqualified deferred compensation" within the meaning of Section 409A of the Code shall be subject to such additional rules and requirements as specified by the Committee from time to time in order to comply with Section 409A. If any amount under such an Award is payable upon a "separation from service" (within the meaning of Section 409A) to a Participant who is then considered a "specified employee" (within the meaning of Section 409A), then no such payment shall be made prior to the date that is the earlier of (i) six months and one day after the Participant's separation from service, or (ii) the Participant's death, but only to the extent such delay is necessary to prevent such payment from being subject to interest, penalties and/or additional tax imposed pursuant to Section 409A. In addition, the settlement of any such Award may not be accelerated except to the extent permitted by Section 409A.

SECTION 18. TRANSFERABILITY.

Unless the agreement evidencing an Award (or an amendment thereto authorized by the Committee) expressly provides otherwise, no Award granted under this Plan, nor any interest in such Award, may be sold, assigned, conveyed, gifted, pledged, hypothecated or otherwise transferred in any manner (prior to the vesting and lapse of any and all restrictions applicable to Shares issued under such Award), other than by will or the laws of descent and distribution; provided, however, that an ISO may be transferred or assigned only to the extent consistent with Section 422 of the Code. Any purported assignment, transfer or encumbrance in violation of this Section 18 shall be void and unenforceable against the Company.

SECTION 19. PERFORMANCE BASED AWARDS.

The number of Shares or other benefits granted, issued, retainable and/or vested under an Award may be made subject to the attainment of performance goals. The Committee may utilize any performance criteria selected by it in its sole discretion to establish performance goals; provided, however, that in the case of any Performance Based Award, the following conditions shall apply:

(i) The amount potentially available under a Performance Based Award shall be subject to the attainment of pre-established, objective performance goals relating to a specified period of service based on one or more of the following performance criteria: (a) cash flow (including operating cash flow), (b) earnings per share, (c) earnings before any combination of interest, taxes, depreciation or amortization, (d) return on equity, (e) total stockholder return, (f) share price performance, (g) return on capital, (h) return on assets or net assets, (i) revenue, (j) income or net income, (k) operating income or net operating income, (l) operating profit or net operating profit, (m) operating margin or profit margin, (n) return on operating revenue, (o) return on invested capital, (p) market segment shares, (q) costs, (r) expenses, (s) achievement

of target levels of discovery and/or development of products or services, including but not limited to research or regulatory achievements, (t) third party coverage and/or reimbursement objectives, or (u) test volume metrics ("Qualifying Performance Criteria"), any of which may be measured either individually, alternatively or in any combination, applied to either the Company as a whole or to a business unit or Subsidiary, either individually, alternatively or in any combination, and measured either annually or cumulatively over a period of years, on an absolute basis or relative to a pre-established target, to previous years' results or to a designated comparison group or index, in each case as specified by the Committee in the Award;

(ii) Unless specified otherwise by the Committee at the time the performance goals are established or otherwise within the time prescribed by Section 162(m) of the Code, the Committee shall appropriately adjust the method of evaluating performance under a Qualifying Performance Criteria for a performance period as follows: (i) to exclude asset write-downs, (ii) to exclude litigation or claim judgments or settlements, (iii) to exclude the effect of changes in tax law, accounting principles or other such laws or provisions affecting reported results, (iv) to exclude accruals for reorganization and restructuring programs, (v) to exclude any extraordinary nonrecurring items as determined under generally accepted accounting principles and/or described in managements' discussion and analysis of financial condition and results of operations appearing in the Company's annual report to stockholders for the applicable year, (vi) to exclude the dilutive effects of acquisitions or joint ventures, (vii) to assume that any business divested by the Company achieved performance objectives at targeted levels during the balance of a performance period following such divestiture, (viii) to exclude the effect of any change in the outstanding shares of common stock of the Company by reason of any stock dividend or split, stock repurchase, reorganization, recapitalization, merger, consolidation, spin-off, combination or exchange of shares or other similar corporate change, or any distributions to common stockholders other than regular cash dividends, (ix) to exclude the effects of stock based compensation and the award of bonuses under the Company's bonus plans; and (x) to exclude costs incurred in connection with potential acquisitions or divestitures that are required to be expensed under generally accepted accounting principles, in each case in compliance with Section 162(m);

(iii) The Committee shall establish the applicable performance goals in writing and an objective method for determining the Award earned by a Participant if the goals are attained, while the outcome is substantially uncertain and not later than the 90th day of the performance period (but in no event after 25% of the period of service with respect to which the performance goals relate has elapsed), and shall determine and certify in writing, for each Participant, the extent to which the performance goals have been met prior to payment or vesting of the Award; and

(iv) The Committee may not in any event increase the amount of compensation payable under the Plan upon the attainment of the pre-established performance goals to a Participant who is a "covered employee" within the meaning of Section 162(m) of the Code.

(v) The maximum aggregate number of Shares that may be subject to Performance Based Awards granted to a Participant in any calendar year is 1,000,000 Shares (subject to adjustment under Section 12), and no more than two times this amount in the first year of employment, and the maximum aggregate amount of cash that may be payable to a Participant under Performance Based Awards granted to a Participant in any calendar year that are Cash-Based Awards is $2,000,000.

SECTION 20. NO EMPLOYMENT RIGHTS.

No provision of the Plan, nor any Award granted under the Plan, shall be construed to give any person any right to become, to be treated as, or to remain an Employee or Consultant. The Company and its Subsidiaries reserve the right to terminate any person's Service at any time and for any reason, with or without notice.

SECTION 21. DURATION AND AMENDMENTS.

(a) Term of the Plan. The Plan, as set forth herein, shall come into existence on the date of its adoption by the Board of Directors; provided, however, that no Award may be granted hereunder prior to the Effective Date. The Board of Directors may suspend or terminate the Plan at any time. No ISOs may be granted after the tenth anniversary of the earlier of (i) the date the Plan is adopted by the Board of Directors, or (ii) the date the Plan is approved the stockholders of the Company.

(b) Right to Amend the Plan. The Board of Directors may amend the Plan at any time and from time to time. Rights and obligations under any Award granted before amendment of the Plan shall not be materially impaired by such amendment, except with consent of the Participant. An amendment of the Plan shall be subject to the approval of the Company's stockholders only to the extent required by applicable laws, regulations or rules.

(c) Effect of Termination. No Awards shall be granted under the Plan after the termination thereof. The termination of the Plan shall not affect Awards previously granted under the Plan.

Exhibit 10.3#

VERACYTE, INC.

2013 STOCK INCENTIVE PLAN

NOTICE OF STOCK OPTION GRANT

You have been granted the following Option to purchase Common Stock of Veracyte, Inc. (the "Company") under the Company's 2013 Stock Incentive Plan (the "Plan"):

Name of Optionee:	[Name of Optionee]
Total Number of Option Shares Granted:	[Total Number of Shares]
Type of Option:	❑ Incentive Stock Option ❑ Nonstatutory Stock Option
Exercise Price Per Share:	$_____
Grant Date:	[Date of Grant]
Vesting Commencement Date:	[Vesting Commencement Date]
	[This Option becomes exercisable with respect to the first 1/4th of the Shares subject to this Option when you complete 12 months of continuous Service as an Employee or a Consultant from the Vesting Commencement Date. Thereafter, this Option becomes exercisable with respect to an additional 1/48th of the Shares subject to this Option when you complete each additional month of such Service.]
Vesting Schedule:	*[Vesting TBD by Bd or comm.]*
Expiration Date:	[Expiration Date] This Option expires earlier if your Service terminates earlier, as described in the Stock Option Agreement.

By your signature and the signature of the Company's representative below, you and the Company agree that this Option is granted under and governed by the term and conditions of the Plan and the Stock Option Agreement (the "Agreement"), both of which are attached to and made a part of this document.

By signing this document you further agree that the Company may deliver by e-mail all documents relating to the Plan or this Award (including without limitation, prospectuses required by the Securities and Exchange Commission) and

all other documents that the Company is required to deliver to its security holders (including without limitation, annual reports and proxy statements). You also agree that the Company may deliver these documents by posting them on a website maintained by the Company or by a third party under contract with the Company. If the Company posts these documents on a website, it will notify you by e-mail.

OPTIONEE:	**Veracyte, Inc.**
_____	By: _____
Optionee's Signature	
_____	Title: _____
Optionee's Printed Name	

VERACYTE, INC.

2013 STOCK INCENTIVE PLAN

STOCK OPTION AGREEMENT

Tax Treatment	This Option is intended to be an incentive stock option under Section 422 of the Internal Revenue Code or a nonstatutory option, as provided in the Notice of Stock Option Grant. Even if this Option is designated as an incentive stock option, it shall be deemed to be a nonstatutory option to the extent required by the $100,000 annual limitation under Section 422(d) of the Internal Revenue Code.
Vesting	This Option becomes exercisable in installments, as shown in the Notice of Stock Option Grant. This Option will in no event become exercisable for additional Shares after your Service as an Employee or a Consultant has terminated for any reason.
Term	This Option expires in any event at the close of business at Company headquarters on the day before the 10th anniversary of the Grant Date, as shown on the Notice of Stock Option Grant (fifth anniversary for a more than 10% shareholder as provided under the Plan if this is an incentive stock option). This Option may expire earlier if your Service terminates, as described below.
Regular Termination	If your Service terminates for any reason except death or "Total and Permanent Disability" (as defined in the Plan), then this Option will expire at the close of business at Company headquarters on the date three (3) months after the date your Service terminates (or, if earlier, the Expiration Date). The Company determines when your Service terminates for this purpose and all purposes under the Plan and its determinations are conclusive and binding on all persons.
Death	If your Service terminates because of death, then this Option will expire at the close of business at Company headquarters on the date 12 months after the date your Service terminates (or, if earlier, the Expiration Date). During that period of up to 12 months, your estate or heirs may exercise the Option.
Disability	If your Service terminates because of your Total and Permanent Disability, then this Option will expire at the close of business at Company headquarters on the date 12 months after the date your Service terminates (or, if earlier, the Expiration Date).
Leaves of Absence	For purposes of this Option, your Service does not terminate when you go on a military leave, a sick leave or another *bona fide* leave of absence, if the leave was approved by the Company in writing and if continued crediting of Service is required by the terms of the leave or by applicable law. But your Service terminates when the approved leave ends, unless you immediately return to active work. If you go on a leave of absence, then the vesting schedule specified in the Notice of Stock Option Grant may be adjusted in accordance with the Company's leave of absence policy or the terms of your leave. Notwithstanding the foregoing, except as otherwise required by applicable laws, vesting of this Option will be suspended during any unpaid leave of absence. If you commence working on a part-time basis, then the vesting schedule specified in the Notice of Stock Option Grant may be adjusted in accordance with the Company's part-time work policy or the terms of an agreement between you and the Company pertaining to your part-time schedule.
Restrictions on Exercise	The Company will not permit you to exercise this Option if the issuance of Shares at that time would violate any law or regulation. The inability of the Company to obtain approval from any regulatory body having authority deemed by the Company to be necessary to the lawful issuance and sale of the Company stock pursuant to this Option shall relieve the Company of any liability with respect to the non-issuance or sale of the Company stock as to which such approval shall not have been obtained.
Notice of Exercise	When you wish to exercise this Option you must provide a notice of exercise form in accordance with such procedures as are established by the Company and communicated to you from time to time. Any notice of exercise must specify how many Shares you wish to purchase and how your Shares should be registered. The notice of exercise will be effective when it is received by the Company. If someone else wants to exercise this Option after your death, that person must prove to the Company's satisfaction that he or she is entitled to do so.
Form of Payment	When you submit your notice of exercise, you must include payment of the Option exercise price for the Shares you are purchasing. Payment may be made in the following form(s): * Your personal check, a cashier's check or a money order.

* Certificates for Shares that you own, along with any forms needed to effect a transfer of those Shares to the Company. The value of the Shares, determined as of the effective date of the Option exercise, will be applied to the Option exercise price. Instead of surrendering Shares, you may attest to the ownership of those Shares on a form provided by the Company and have the same number of Shares subtracted from the Shares issued to you upon exercise of the Option. However, you may not surrender or attest to the ownership of Shares in payment of the exercise price if your action would cause the Company to recognize a compensation expense (or additional compensation expense) with respect to this Option for financial reporting purposes.
* By delivery on a form approved by the Company of an irrevocable direction to a securities broker approved by the Company to sell all or part of the Shares that are issued to you when you exercise this Option and to deliver to the Company from the sale proceeds an amount sufficient to pay the Option exercise price and any withholding taxes. The balance of the sale proceeds, if any, will be delivered to you. The directions must be given by providing a notice of exercise form approved by the Company.
* By delivery on a form approved by the Company of an irrevocable direction to a securities broker or lender approved by the Company to pledge Shares that are issued to you when you exercise this Option as security for a loan and to deliver to the Company from the loan proceeds an amount sufficient to pay the Option exercise price and any withholding taxes. The directions must be given by providing a notice of exercise form approved by the Company.
* If permitted by the Committee, by a “net exercise” arrangement pursuant to which the number of Shares issuable upon exercise of the Option shall be reduced by the largest whole number of Shares having an aggregate Fair Market Value that does not exceed the aggregate exercise price (plus tax withholdings, if applicable) and any remaining balance of the aggregate exercise price (and/or applicable tax withholdings) not satisfied by such reduction in the number of whole Shares to be issued shall be paid by you in cash other form of payment permitted under this Option. The directions must be given by providing a notice of exercise form approved by the Company.
* Any other form permitted by the Committee in its sole discretion.

Notwithstanding the foregoing, payment may not be made in any form that is unlawful, as determined by the Committee in its sole discretion.

Withholding Taxes and Stock Withholding

Regardless of any action the Company or your actual employer (the “Employer”) takes with respect to any or all income tax, social insurance, payroll tax, payment on account or other tax-related withholding (“Tax-Related Items”), you acknowledge that the ultimate liability for all Tax-Related Items legally due by you is and remains your responsibility and that the Company and/or the Employer (1) make no representations or undertakings regarding the treatment of any Tax-Related Items in connection with any aspect of the Option grant, including the grant, vesting or exercise of the Option, the subsequent sale of Shares acquired pursuant to such exercise and the receipt of any dividends; and (2) do not commit to structure the terms of the grant or any aspect of the Option to reduce or eliminate your liability for Tax-Related Items.

Prior to exercise of the Option, you shall pay or make adequate arrangements satisfactory to the Company and/or the Employer to satisfy all Tax-Related Items.

In this regard, you authorize the Company and/or the Employer (and their respective agents) to satisfy the obligations with regard to all Tax-Related Items by one or a combination of the following, as determined at the sole discretion of the Company and only to the extent permissible under local law: (1) withholding from your wages or other cash compensation paid to you by the Company and/or the Employer, (2) having the Company withhold taxes from the proceeds of the sale of the Shares, either through a voluntary sale or through a mandatory sale arranged by the Company (on your behalf pursuant to this authorization), (3) withholding Shares that otherwise would be issued to you when you exercise this Option, or (4) any other arrangement approved by the Committee and permitted under applicable law; all under such rules as may be established by the Committee and in compliance with the Company's Insider Trading Policy and 10b5-1 Trading Plan Policy, if applicable.

If the obligation for Tax-Related Items is satisfied by withholding in Shares, for tax purposes, you are deemed to have been issued the full number of exercised Shares; notwithstanding that a number of the Shares are held back solely for the purpose of satisfying the withholding obligation for Tax-Related Items due as a result of any aspect of your participation in the Plan. The Fair Market Value of these Shares, determined as of as of the date that the taxes are required to be withheld, will be applied as a credit against the Tax-Related Items withholding. Depending on the withholding method, the Company may withhold or account for Tax-Related Items by considering applicable statutory withholding rates or other applicable withholding rates, including up to the maximum permissible statutory rate for your tax jurisdiction(s) in which case you will have no entitlement to the equivalent amount in Shares and will receive a refund of any over-withheld amount in cash in accordance with applicable law.

Finally, you shall pay to the Company or the Employer any amount of Tax-Related Items that the Company or the Employer may be required to withhold as a result of your participation in the Plan or your purchase of Shares that cannot be satisfied by the means previously described. The Company may refuse to honor the exercise and refuse to deliver the Shares if you fail to comply with your obligations in connection with the Tax-Related Items as described in this section.

Restrictions on Resale

You agree not to sell any Shares at a time when applicable laws, Company policies or an agreement between the Company and its underwriters prohibit a sale. This restriction will apply as long as your Service continues and for such period of time after the termination of your Service as the Company may specify.

Transfer of Option

In general, only you can exercise this Option prior to your death. You may not sell, transfer, assign, pledge or otherwise dispose of this Option, other than as designated by you by will or by the laws of descent and distribution, except as provided below. For instance, you may not use this Option as security for a loan. If you attempt to do any of these things, this Option will immediately become invalid. You may in any event dispose of this Option in your will. Regardless of any marital property settlement agreement, the Company is not obligated to honor a notice of exercise from your former spouse, nor is the Company obligated to recognize your former spouse's interest in your Option in any other way.

However, if this Option is designated as a nonstatutory stock option in the Notice of Stock Option Grant, then the Committee may, in its sole discretion, allow you to transfer this Option as a gift to one or more family members. For purposes of this Agreement, "family member" means a child, stepchild, grandchild, parent, stepparent, grandparent, spouse, former spouse, sibling, niece, nephew, mother-in-law, father-in-law, son-in-law, daughter-in-law, brother-in-law, or sister-in-law (including adoptive relationships), any individual sharing your household (other than a tenant or employee), a trust in which one or more of these individuals have more than 50% of the beneficial interest, a foundation in which you or one or more of these persons control the management of assets, and any entity in which you or one or more of these persons own more than 50% of the voting interest.

In addition, if this Option is designated as a nonstatutory stock option in the Notice of Stock Option Grant, then the Committee may, in its sole discretion, allow you to transfer this option to your spouse or former spouse pursuant to a domestic relations order in settlement of marital property rights.

The Committee will allow you to transfer this Option only if both you and the transferee(s) execute the forms prescribed by the Committee, which include the consent of the transferee(s) to be bound by this Agreement.

Retention Rights

Neither your Option nor this Agreement gives you the right to be employed or retained by the Company or a subsidiary of the Company in any capacity. The Company and its subsidiaries reserve the right to terminate your Service at any time, with or without cause.

Shareholder Rights	Your Options carry neither voting rights nor rights to dividends. You, or your estate or heirs, have no rights as a shareholder of the Company unless and until you have exercised this Option by giving the required notice to the Company and paying the exercise price. No adjustments will be made for dividends or other rights if the applicable record date occurs before you exercise this Option, except as described in the Plan.
Adjustments	The number of Shares covered by this Option and the exercise price per Share shall be subject to adjustment in the event of a stock split, a stock dividend or a similar change in Company Shares, and in other circumstances, as set forth in the Plan.
Successors and Assigns	Except as otherwise provided in the Plan or this Agreement, every term of this Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective heirs, legatees, legal representatives, successors, transferees and assigns.
Notice	Any notice required or permitted under this Agreement shall be given in writing and shall be deemed effectively given upon the earliest of personal delivery, receipt or the third full day following mailing with postage and fees prepaid, addressed to the other party hereto at the address last known in the Company's records or at such other address as such party may designate by ten (10) days' advance written notice to the other party hereto.
Applicable Law	This Agreement will be interpreted and enforced under the laws of the State of California (without regard to their choice-of-law provisions).
Miscellaneous	You understand and acknowledge that (i) the Plan is entirely discretionary, (ii) the Company and your employer have reserved the right to amend, suspend or terminate the Plan at any time, (iii) the grant of an option does not in any way create any contractual or other right to receive additional grants of options (or benefits in lieu of options) at any time or in any amount and (iv) all determinations with respect to any additional grants, including (without limitation) the times when options will be granted, the number of Shares offered, the exercise price and the vesting schedule, will be at the sole discretion of the Company. The value of this Option shall be an extraordinary item of compensation outside the scope of your employment contract, if any, and shall not be considered a part of your normal or expected compensation for purposes of calculating severance, resignation, redundancy or end-of-service payments, bonuses, long-service awards, pension or retirement benefits or similar payments. You understand and acknowledge that participation in the Plan ceases upon termination of your Service for any reason, except as may explicitly be provided otherwise in the Plan or this Agreement. You hereby authorize and direct your employer to disclose to the Company or any Subsidiary any information regarding your employment, the nature and amount of your compensation and the fact and conditions of your participation in the Plan, as your employer deems necessary or appropriate to facilitate the administration of the Plan. You consent to the collection, use and transfer of personal data as described in this subsection. You understand and acknowledge that the Company, your employer and the Company's other Subsidiaries hold certain personal information regarding you for the purpose of managing and administering the Plan, including (without limitation) your name, home address, telephone number, date of birth, social insurance number, salary, nationality, job title, any Shares or directorships held in the Company and details of all options or any other entitlements to Shares awarded, canceled, exercised, vested, unvested or outstanding in the your favor (the "Data"). You further understand and acknowledge that the Company and/or its Subsidiaries will transfer Data among themselves as necessary for the purpose of implementation, administration and management of your participation in the Plan and that the Company and/or any Subsidiary may each further transfer Data to any third party assisting the Company in the implementation, administration and management of the Plan. You understand and acknowledge that the recipients of Data may be located in the United States or elsewhere. You authorize such recipients to receive, possess, use, retain and transfer Data, in electronic or other form, for the purpose of administering your participation in the Plan, including a transfer to any broker or other third party with whom you elect to deposit Shares acquired under the Plan of such Data as may be required for the administration of the Plan and/or the subsequent holding of Shares on your behalf. You may, at any time, view the Data, require any necessary modifications of Data or withdraw the consents set forth in this subsection by contacting the Human Resources Department of the Company in writing.
The Plan and Other Agreements	The text of the Plan is incorporated in this Agreement by reference. All capitalized terms in the Agreement shall have the meanings assigned to them in the Plan. This Agreement and the Plan constitute the entire understanding between you and the Company regarding this Option. Any prior agreements, commitments or negotiations concerning this Option are superseded. This Agreement may be amended by the Committee without your consent; however, if any such amendment would materially impair your rights or obligations under the Agreement, this Agreement may be amended only by another written agreement, signed by you and the Company.

By signing the cover sheet of this Agreement,
you agree to all of the terms and conditions
described above and in the Plan.

VERACYTE, INC.

2013 STOCK INCENTIVE PLAN

Notice of Restricted Stock Award

You have been granted the following Restricted Shares of Common Stock of Veracyte, Inc. (the "Company") under the Company's 2013 Stock Incentive Plan (the "Plan").

Date of Grant:	[*Date of Grant*]
Name of Recipient:	[*Name of Recipient*]
Total Number of Shares Granted:	[Total Shares]
Fair Market Value per Share:	$[Value Per Share]
Total Fair Market Value of Award:	$[Total Value]
Vesting Commencement Date:	[_____]
Vesting Schedule:	[The Shares subject to this Award vest when you complete twelve months of continuous Service as an Employee or a Consultant from the Vesting Commencement Date.] *[Sample language - actual vesting to be inserted.]*

By your signature and the signature of the Company's representative below, you and the Company agree that these Restricted Shares are granted under and governed by the term and conditions of the Plan and the Restricted Stock Agreement (the "Agreement"), both of which are attached to and made a part of this document.

By signing this document you further agree that the Company may deliver by e-mail all documents relating to the Plan or this Award (including without limitation, prospectuses required by the Securities and Exchange Commission) and all other documents that the Company is required to deliver to its security holders (including without limitation, annual reports and proxy statements). You also agree that the Company may deliver these documents by posting them on a website maintained

[NAME OF RECIPIENT]

_____

VERACYTE, INC.

By: _____

Title: _____

VERACYTE, INC.

2013 STOCK INCENTIVE PLAN

NOTICE OF RESTRICTED STOCK AWARD

Payment For Shares	No cash payment is required for the Shares you receive. You are receiving the Shares in consideration for Services rendered by you.
Vesting	The Shares that you are receiving will vest in installments, as shown in the Notice of Restricted Stock Award. No additional Shares vest after your Service as an Employee or a Consultant has terminated for any reason.
Shares Restricted	Unvested Shares will be considered "Restricted Shares." Except to the extent permitted by the Committee, you may not sell, transfer, assign, pledge or otherwise dispose of Restricted Shares.
Forfeiture	If your Service terminates for any reason, then your Shares will be forfeited to the extent that they have not vested before the termination date and do not vest as a result of termination. This means that the Restricted Shares will immediately revert to the Company. You receive no payment for Restricted Shares that are forfeited. The Company determines when your Service terminates for this purpose and all purposes under the Plan and its determinations are conclusive and binding on all persons.
Leaves Of Absence	For purposes of this Award, your Service does not terminate when you go on a military leave, a sick leave or another bona fide leave of absence, if the leave was approved by the Company in writing and if continued crediting of Service is required by the terms of the leave or by applicable law. But your Service terminates when the approved leave ends, unless you immediately return to active work. If you go on a leave of absence, then the vesting schedule specified in the Notice of Restricted Stock Award may be adjusted in accordance with the Company's leave of absence policy or the terms of your leave. Notwithstanding the foregoing, except as otherwise required by applicable laws, vesting of the Restricted Shares will be suspended during any unpaid leave of absence. If you commence working on a part-time basis, then the vesting schedule specified in the Notice of Restricted Stock Award may be adjusted in accordance with the Company's part-time work policy or the terms of an agreement between you and the Company pertaining to your part-time schedule.
Stock Certificates	The certificates for the Restricted Shares have stamped on them a special legend referring to the forfeiture restrictions. In addition to or in lieu of imposing the legend, the Company may hold the certificates in escrow. As your vested percentage increases, you may request (at reasonable intervals) that the Company release to you a non-legended certificate for your vested Shares.
Shareholder Rights	During the period of time between the date of grant and the date the Restricted Shares become vested, you shall have all the rights of a shareholder with respect to the Restricted Shares except for the right to transfer the Restricted Shares, as set forth above. Accordingly, you shall have the right to vote the Restricted Shares and to receive any cash dividends paid with respect to the Restricted Shares.
Withholding Taxes	Regardless of any action the Company or your employer (the "Employer") takes with respect to any or all income tax, social insurance, payroll tax, payment on account or other tax-related withholding ("Tax-Related Items"), you acknowledge that the ultimate liability for all Tax-Related Items legally due by you is and remains your responsibility and that the Company and/or your Employer (1) make no representations or undertakings regarding the treatment of any Tax-Related Items in connection with any aspect of the shares received under this Award, including the award or vesting of such shares, the subsequent sale of shares under this Award and the receipt of any dividends; and (2) do not commit to structure the terms of the award to reduce or eliminate your liability for Tax-Related Items.

No stock certificates will be released to you, unless you have paid or made adequate arrangements satisfactory to the Company and/or the Employer to satisfy all withholding and payment on account obligations of the Company and/or your Employer.

In this regard, you authorize the Company and/or your Employer (and their respective agents) to satisfy the obligations with regard to all Tax-Related Items by one or a combination of the following, as determined at the sole discretion of the Company and only to the extent permissible under local law: (1) withholding from your wages or other cash compensation paid to you by the Company and/or the Employer, (2) having the Company withhold taxes from the proceeds of the sale of the Shares, either through a voluntary sale or through a mandatory sale arranged by the Company (on your behalf pursuant to this authorization), (3) withholding Shares that otherwise would be issued to you when they vest, or (4) any other arrangement approved by the Committee and permitted under applicable law; all under such rules as may be established by the Committee and in compliance with the Company's Insider Trading Policy and 10b5-1 Trading Plan Policy, if applicable.

The Fair Market Value of these Shares, determined as of as of the date that the taxes are required to be withheld, will be applied as a credit against the Tax-Related Items withholding. Depending on the withholding method, the Company may withhold or account for Tax-Related Items by considering applicable statutory withholding rates or other applicable withholding rates, including up to the maximum permissible statutory rate for your tax jurisdiction(s) in which case you will have no entitlement to the equivalent amount in Shares and will receive a refund of any over-withheld amount in cash in accordance with applicable law. If the obligation for Tax-Related Items is satisfied by withholding in Shares, for tax purposes, you are deemed to have been issued the full number of Shares subject to the vested Shares, notwithstanding that a number of the Shares are held back solely for the purpose of satisfying the withholding obligation for Tax-Related Items.

Finally, you shall pay to the Company or your Employer any amount of Tax-Related Items that the Company or the Employer may be required to withhold as a result of your participation in the Plan or your acquisition of shares that cannot be satisfied by the means previously described. The Company may refuse to deliver the shares if you fail to comply with your obligations in connection with the Tax-Related Items as described in this section.

Restrictions On Resale You agree not to sell any Shares at a time when applicable laws, Company policies or an agreement between the Company and its underwriters prohibit a sale. This restriction will apply as long as your Service continues and for such period of time after the termination of your Service as the Company may specify.

No Retention Rights **Neither your Award nor this Agreement gives you the right to be employed or retained by the Company or a subsidiary of the Company in any capacity. The Company and its subsidiaries reserve the right to terminate your Service at any time, with or without cause.**

Adjustments In the event of a stock split, a stock dividend or a similar change in Company Shares, or an extraordinary dividend, or a merger or a reorganization of the Company, the forfeiture provisions described above will apply to all new, substitute or additional securities or other assets to which you are entitled by reason of your ownership of the Shares.

Successors and Assigns Except as otherwise provided in the Plan or this Agreement, every term of this Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective heirs, legatees, legal representatives, successors, transferees and assigns.

Notice Any notice required or permitted under this Agreement shall be given in writing and shall be deemed effectively given upon the earliest of personal delivery, receipt or the third full day following mailing with postage and fees prepaid, addressed to the other party hereto at the address last known in the Company's records or at such other address as such party may designate by ten (10) days' advance written notice to the other party hereto.

Applicable Law This Agreement will be interpreted and enforced under the laws of the State of California (without regard to their choice-of-law provisions).

Miscellaneous

You understand and acknowledge that (i) the Plan is entirely discretionary, (ii) the Company and your employer have reserved the right to amend, suspend or terminate the Plan at any time, (iii) the grant of your Award does not in any way create any contractual or other right to receive additional grants of awards (or benefits in lieu of awards) at any time or in any amount and (iv) all determinations with respect to any additional grants, including (without limitation) the times when awards will be granted, the number of shares offered, the purchase price and the vesting schedule, will be at the sole discretion of the Company.

The value of this Award shall be an extraordinary item of compensation outside the scope of your employment contract, if any, and shall not be considered a part of your normal or expected compensation for purposes of calculating severance, resignation, redundancy or end-of-service payments, bonuses, long-service awards, pension or retirement benefits or similar payments.

You understand and acknowledge that participation in the Plan ceases upon termination of your Service for any reason, except as may explicitly be provided otherwise in the Plan or this Agreement.

You hereby authorize and direct your employer to disclose to the Company or any Subsidiary any information regarding your employment, the nature and amount of your compensation and the fact and conditions of your participation in the Plan, as your employer deems necessary or appropriate to facilitate the administration of the Plan.

You consent to the collection, use and transfer of personal data as described in this subsection. You understand and acknowledge that the Company, your employer and the Company's other Subsidiaries hold certain personal information regarding you for the purpose of managing and administering the Plan, including (without limitation) your name, home address, telephone number, date of birth, social insurance number, salary, nationality, job title, any shares or directorships held in the Company and details of all awards or any other entitlements to shares awarded, canceled, exercised, vested, unvested or outstanding in the your favor (the "Data"). You further understand and acknowledge that the Company and/or its Subsidiaries will transfer Data among themselves as necessary for the purpose of implementation, administration and management of your participation in the Plan and that the Company and/or any Subsidiary may each further transfer Data to any third party assisting the Company in the implementation, administration and management of the Plan. You understand and acknowledge that the recipients of Data may be located in the United States or elsewhere. You authorize such recipients to receive, possess, use, retain and transfer Data, in electronic or other form, for the purpose of administering your participation in the Plan, including a transfer to any broker or other third party with whom you elect to deposit shares acquired under the Plan of such Data as may be required for the administration of the Plan and/or the subsequent holding of shares on your behalf. You may, at any time, view the Data, require any necessary modifications of Data or withdraw the consents set forth in this subsection by contacting the Human Resources Department of the Company in writing.

The Plan and Other Agreements

The text of the Plan is incorporated in this Agreement by reference. All capitalized terms in this Agreement shall have the meanings assigned to them in the Plan. This Agreement and the Plan constitute the entire understanding between you and the Company regarding this Award. Any prior agreements, commitments or negotiations concerning this Award are superseded. This Agreement may be amended by the Committee without your consent; however, if any such amendment would materially impair your rights or obligations under the Agreement, this Agreement may be amended only by another written agreement, signed by you and the Company.

By signing the cover sheet of this Agreement,

you agree to all of the terms and conditions

described above and in the Plan.

VERACYTE, INC.

2013 STOCK INCENTIVE PLAN

Notice of Stock Unit Award

You have been granted the following Stock Units representing shares of Common Stock of Veracyte, Inc. (the "Company") under the Company's 2013 Stock Incentive Plan (the "Plan"). Certain capitalized terms used, but not defined in this Notice of Stock Unit Award are defined in the Plan.

Name of Participant:	[-]
Total Number of Stock Units Granted:	[-]
Date of Grant:	[-]
Vesting Commencement Date:	[-]
Vesting Schedule:	The Stock Units subject to this Award vest when you complete each [12 months] of continuous Service as an Employee or a Consultant from the Vesting Commencement Date.] *[Sample language - actual vesting schedule to be inserted as approved on grant-by-grant basis.]*

By executing this document, which may be accomplished by e-signature or other electronic indication of acceptance, you and the Company agree that these Stock Units are granted under and governed by the term and conditions of the Plan and the Stock Unit Agreement (the "Agreement"), both of which are attached to and made a part of this document.

By executing this document you further agree that the Company may deliver by e-mail all documents relating to the Plan or this Award (including without limitation, prospectuses required by the Securities and Exchange Commission) and all other documents that the Company is required to deliver to its security holders (including without limitation, annual reports and proxy statements). You also agree that the Company may deliver these documents by posting them on a website maintained by the Company or by a third party under contract with the Company. If the Company posts these documents on a website, it will notify you by e-mail.

[Name of Participant]

_____

Print Name

VERACYTE, INC.

By: _____

Title: _____

VERACYTE, INC.

2013 STOCK INCENTIVE PLAN

STOCK OPTION AGREEMENT

Payment for Stock Units	No cash payment is required for the Stock Units you receive. You are receiving the Stock Units in consideration for Services rendered by you.
Vesting	The Stock Units that you are receiving will vest in installments, as shown in the Notice of Stock Unit Award. No additional Stock Units vest after your Service as an Employee or a Consultant has terminated for any reason [, except as provided in your Change of Control and Severance Agreement to the extent in effect at the time of termination]. [*reference to Change of Control and Severance Agreement included only if applicable to the Participant*]
Forfeiture	If your Service terminates for any reason, then your Award expires immediately as to the number of Stock Units that have not vested before the termination date and do not vest as a result of termination. This means that the unvested Stock Units will immediately be cancelled. You receive no payment for Stock Units that are forfeited. The Company determines when your Service terminates for this purpose and all purposes under the Plan and its determinations are conclusive and binding on all persons.
Leaves of Absence	For purposes of this Award, your Service does not terminate when you go on a military leave, a sick leave or another *bona fide* leave of absence, if the leave of absence was approved by the Company in writing and if continued crediting of Service is required by the terms of the leave or by applicable law. But your Service terminates when the approved leave ends, unless you immediately return to active work. If you go on a leave of absence, then the vesting schedule specified in the Notice of Stock Unit Award may be adjusted in accordance with the Company's leave of absence policy or the terms of your leave. Notwithstanding the foregoing, except as otherwise required by applicable laws, vesting of your Stock Units will be suspended during any unpaid leave of absence. If you commence working on a part-time basis, then the vesting schedule specified in the Notice of Stock Unit Award may be adjusted in accordance with the Company's part-time work policy or the terms of an agreement between you and the Company pertaining to your part-time schedule.
Nature of Stock Units	Your Stock Units are mere bookkeeping entries. They represent only the Company's unfunded and unsecured promise to issue Shares on a future date. As a holder of Stock Units, you have no rights other than the rights of a general creditor of the Company.
No Voting Rights or Dividends	Your Stock Units are mere bookkeeping entries. They represent only the Company's unfunded and unsecured promise to issue Shares on a future date. As a holder of Stock Units, you have no rights other than the rights of a general creditor of the Company.
Stock Units Nontransferable	You may not sell, transfer, assign, pledge or otherwise dispose of any Stock Units. For instance, you may not use your Stock Units as security for a loan. If you attempt to do any of these things, your Stock Units will immediately become invalid.
Settlement of Stock Units	Each of your vested Stock Units will be settled within 30 days following the applicable date of vesting under the Vesting Schedule set forth in the Notice of Stock Unit Award. At the time of settlement, you will receive one Share for each vested Stock Unit; provided, however, that no fractional Shares will be issued or delivered pursuant to the Plan or this Agreement, and the Committee will determine whether cash will be paid in lieu of any fractional Share or whether such fractional Share and any rights thereto will be canceled, terminated or otherwise eliminated. In addition, the Shares are issued to you subject to the condition that the issuance of the Shares not violate any law or regulation.

Withholding Taxes and Stock Withholding	Regardless of any action the Company or your actual employer (the "Employer") takes with respect to any or all income tax, social insurance, payroll tax, payment on account or other tax-related withholding ("Tax-Related Items"), you acknowledge that the ultimate liability for all Tax-Related Items legally due by you is and remains your responsibility and that the Company and/or the Employer (1) make no representations or undertakings regarding the treatment of any Tax-Related Items in connection with any aspect of the Award, including the settlement of the Stock Units, the subsequent sale of Shares acquired pursuant to such settlement and the receipt of any dividends; and (2) do not commit to structure the terms of the Award or any aspect of the Stock Units to reduce or eliminate your liability for Tax-Related Items. Prior to any relevant taxable or tax withholding event, as applicable, you shall pay or make adequate arrangements satisfactory to the Company and/or the Employer, as applicable, to satisfy all Tax-Related Items. In this regard, you authorize the Company and/or the Employer (and their respective agents) to satisfy the obligations with regard to all Tax-Related Items by one or a combination of the following, as determined at the sole discretion of the Company and only to the extent permissible under local law: (1) withholding from your wages or other cash compensation paid to you by the Company and/or the Employer; (2) withholding from proceeds of the sale of Shares acquired upon settlement of the Stock Units either through a voluntary sale or through a mandatory sale arranged by the Company (on your behalf pursuant to this authorization); (3) withholding of Shares to otherwise be issued upon settlement of the Stock Units; or (4) any other arrangement approved by the Committee and permitted under applicable law; all under such rules as may be established by the Committee and in compliance with the Company's Insider Trading Policy and 10b5-1 Trading Plan Policy, if applicable; provided, however, that the Committee shall establish the method prior to the Tax-Related Items withholding event and, unless determined otherwise by the Committee in advance of a Tax-Related Items withholding event, the method of withholding for this RSU will be (3) above. If the obligation for Tax-Related Items is satisfied by withholding in Shares, for tax purposes, you are deemed to have been issued the full number of Shares subject to the vested Stock Units, notwithstanding that a number of the Shares are held back solely for the purpose of paying the Tax-Related Items due as a result of any aspect of your participation in the Plan. The Fair Market Value of these Shares, determined as of as of the date that the taxes are required to be withheld, will be applied as a credit against the Tax-Related Items withholding. Depending on the withholding method, the Company may withhold or account for Tax-Related Items by considering applicable statutory withholding rates or other applicable withholding rates, including up to the maximum permissible statutory rate for your tax jurisdiction(s) in which case you will have no entitlement to the equivalent amount in Shares and will receive a refund of any over-withheld amount in cash in accordance with applicable law. Finally, you shall pay to the Company or the Employer any amount of Tax-Related Items that the Company or the Employer may be required to withhold as a result of your participation in the Plan or your purchase of Shares that cannot be satisfied by the means previously described. The Company may refuse to deliver the Shares if you fail to comply with your obligations in connection with the Tax-Related Items as described in this section, and your rights to the Shares shall be forfeited if you do not comply with such obligations on or before the scheduled settlement deadline.
Restrictions on Resale	You agree not to sell any Shares at a time when applicable laws, Company policies or an agreement between the Company and its underwriters prohibit a sale. This restriction will apply as long as your Service continues and for such period of time after the termination of your Service as the Company may specify.
No Retention Rights	Neither your Award nor this Agreement gives you the right to be employed or retained by the Company or a subsidiary of the Company in any capacity. The Company and its subsidiaries reserve the right to terminate your Service at any time, with or without cause.
Adjustments	The number of Stock Units covered by this Award shall be subject to adjustment in the event of a stock split, a stock dividend or a similar change in Company Shares, and in other circumstances, as set forth in the Plan. The forfeiture provisions and restrictions provided for in this Agreement will apply to all new, substitute or additional Stock Units or securities to which you are entitled by reason of this Award.

Successors and Assigns	Except as otherwise provided in the Plan or this Agreement, every term of this Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective heirs, legatees, legal representatives, successors, transferees and assigns.
Notice	Any notice required or permitted under this Agreement shall be given in writing and shall be deemed effectively given upon the earliest of personal delivery, receipt or the third full day following mailing with postage and fees prepaid, addressed to the other party hereto at the address last known in the Company's records or at such other address as such party may designate by ten (10) days' advance written notice to the other party hereto.
Applicable Law and Choice of Venue	This Agreement will be interpreted and enforced under the laws of the State of California (without regard to their choice-of-law provisions). For purposes of litigating any dispute that arises directly or indirectly from the relationship of the parties evidenced by this Award or the Agreement, the parties hereby submit to and consent to the exclusive jurisdiction of the State of California and agree that such litigation shall be conducted only in the courts of San Mateo County, California, or the federal courts for the United States for the Northern District of California, and no other courts, were this grant is made and/or to be performed.
Miscellaneous	You understand and acknowledge that (i) the Plan is entirely discretionary, (ii) the Company and your employer have reserved the right to amend, suspend or terminate the Plan at any time, (iii) the grant of your Award does not in any way create any contractual or other right to receive additional grants of awards (or benefits in lieu of awards) at any time or in any amount and (iv) all determinations with respect to any additional grants, including (without limitation) the times when awards will be granted, the number of Shares subject to the awards, and the vesting schedule, will be at the sole discretion of the Company. The value of this Award shall be an extraordinary item of compensation outside the scope of your employment contract, if any, and shall not be considered a part of your normal or expected compensation for purposes of calculating severance, resignation, redundancy or end-of-service payments, bonuses, long-service awards, pension or retirement benefits or similar payments. You understand and acknowledge that participation in the Plan ceases upon termination of your Service for any reason, except as may explicitly be provided otherwise in the Plan or this Agreement. You hereby authorize and direct your employer to disclose to the Company or any Subsidiary any information regarding your employment, the nature and amount of your compensation and the fact and conditions of your participation in the Plan, as your employer deems necessary or appropriate to facilitate the administration of the Plan. You consent to the collection, use and transfer of personal data as described in this subsection. You understand and acknowledge that the Company, your employer and the Company's other Subsidiaries hold certain personal information regarding you for the purpose of managing and administering the Plan, including (without limitation) your name, home address, telephone number, date of birth, social insurance number, salary, nationality, job title, any Shares or directorships held in the Company and details of all awards or any other entitlements to Shares awarded, canceled, exercised, vested, unvested or outstanding in your favor (the "Data"). You further understand and acknowledge that the Company and/or its Subsidiaries will transfer Data among themselves as necessary for the purpose of implementation, administration and management of your participation in the Plan and that the Company and/or any Subsidiary may each further transfer Data to any third party assisting the Company in the implementation, administration and management of the Plan. You understand and acknowledge that the recipients of Data may be located in the United States or elsewhere. You authorize such recipients to receive, possess, use, retain and transfer Data, in electronic or other form, for the purpose of administering your participation in the Plan, including a transfer to any broker or other third party with whom you elect to deposit Shares acquired under the Plan of such Data as may be required for the administration of the Plan and/or the subsequent holding of Shares on your behalf. You may, at any time, view the Data, require any necessary modifications of Data or withdraw the consents set forth in this subsection by contacting the Human Resources Department of the Company in writing.

The Plan and Other Agreements

The text of the Plan is incorporated in this Agreement by reference. All capitalized terms in this Agreement shall have the meanings assigned to them in the Plan. This Agreement and the Plan constitute the entire understanding between you and the Company regarding this Award. Any prior agreements, commitments or negotiations concerning this Award are superseded. This Agreement may be amended by the Committee without our consent, however, if any such amendment would materially impair your rights under this Agreement, this Agreement may be amended on by another written agreement, signed by you and the Company.

By EXECUTING THE ATTACHED NOTICE,
you agree to all of the terms and conditions
described above and in the Plan

FIRST AMENDMENT TO LEASE
(Sierra Point)

THIS FIRST AMENDMENT TO LEASE ("**First Amendment**") is made and entered into as of the 3rd day of May, 2016, by and between AMERICAN FUND US INVESTMENTS LP, a Delaware limited partnership ("**Landlord**") and VERACYTE, INC., a Delaware corporation ("**Tenant**").

R E C I T A L S :

A. Landlord and Tenant entered into that certain Office Building Lease ("**Lease**") dated April 29, 2015 for space in that certain office building located at 6000 Shoreline Court, South San Francisco, California (the "**Building**").

B. By this First Amendment, Landlord and Tenant desire to memorialize Landlord's and Tenant's agreement with respect to certain matters pertaining to the Lease.

C. Unless otherwise defined herein, capitalized terms as used herein shall have the same meanings as given thereto in the Lease.

NOW, THEREFORE, in consideration of the foregoing recitals and the mutual covenants contained herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged ,' the parties hereto hereby agree as follows:

A G R E E M E N T :

1. The Premises. Landlord and Tenant hereby agree that pursuant to the Lease, Landlord currently leases to Tenant and Tenant currently leases from Landlord that certain space within the Building commonly known as Suites 100, 200 and 300 and containing 58,625 rentable square feet in the aggregate (the "**Premises**"), all as more particularly described in the Lease.

2. Fitness Center Upgrade Modifications. Notwithstanding anything in Article 46 of the Lease, Article 46 is hereby deemed revised as follows: (i) Tenant shall not be obligated to pay or share in any Fitness Center upgrade costs (and Landlord shall be responsible for one hundred percent (100%) of such costs), and (ii) Tenant shall not have any approval rights whatsoever regarding the Fitness Center upgrades to be installed by Landlord (and Landlord shall have sole control over such upgrades.

3. Tenant Improvement Allowance Disbursement. By its execution of this First Amendment, Tenant waives any claim by Tenant to any late fees on account of Landlord's disbursement of the Tenant Improvement Allowance.

4. Exhaust Ventilation Installation. So long as the same does not adversely affect Tenant's exhaust ventilation system or any other system serving the Premises, or disrupt Tenant's

use of or operations in the Premises, and subject to the terms and conditions of this Section 4, Tenant hereby approves of Landlord, at Landlord's sole cost and expense, accessing Tenant's flue shaft in the Premises in order to install a separate piping system within such flue shaft. Such piping system shall be used by prospective ground floor tenants to vent exhaust to the roof of the Building. Once installed, Landlord shall, at no cost to Tenant (including by means of including costs in Operating Expenses), cause the piping system to be kept in good, leak free condition and proper working order, and Tenant shall have no liability or responsibility therefor. If the installation, repair, maintenance or operation of the piping system damages or impairs or prevents the proper functioning of Tenant's exhaust ventilation system, Landlord shall, at no cost to Tenant (including by means of including costs in Operating Expenses), promptly repair such damage and restore the proper functioning of Tenant's exhaust ventilation system. Tenant shall have the right to reasonably review and approve the plans and specifications for the piping system, and Landlord shall reimburse to Tenant the actual, documented and reasonable third party costs incurred by Tenant in connection with such review. Landlord shall not install the piping system until Tenant has had the reasonable opportunity to review and approve such plans and specifications (which approval shall not be unreasonably withheld, conditioned or delayed). Access to the Premises by Landlord, its contractors or any other person in order to install, repair or maintain the piping system shall be subject to Paragraph 19 of the Lease.

5. Rent Credit. Landlord shall provide Tenant with a Twenty Thousand Dollar ($20,000.00) rent credit on account of certain sprinkler work performed by Tenant, which rent credit shall be applied by Landlord toward the Base Rent next due and payable by Tenant following the date of the full execution and delivery of this First Amendment by Landlord and Tenant.·

6. Brokers. Each party represents and warrants to the other that no broker, agent or finder negotiated or was instrumental in negotiating or consummating this First Amendment. Each party further agrees to defend, indemnify and hold harmless the other party from and against any claim for commission or finder's fee by any other person or entity who claims or alleges that they were retained or engaged by the first party or at the request of such party in connection with this First Amendment.

7. Disclosures. Pursuant to Civil Code Section 1938, Landlord states that, as of the date hereof, the Premises has not undergone inspection by a Certified Access Specialist ("CASp") to determine whether the Premises meet all applicable construction-related accessibility standards under California Civil Code Section 55.53.

8. Defaults. Tenant hereby represents to Landlord that, as of the date of this First Amendment, to Tenant's actual knowledge without investigation, there are currently no breaches or defaults under the Lease by Landlord or Tenant. Landlord hereby represents to Tenant that, as of the date of this First Amendment, to Landlord's actual knowledge without investigation, there are currently no breaches or defaults under the Lease by Landlord or Tenant.

9. Confidentiality. Landlord and Tenant shall use reasonable efforts to keep the information in this First Amendment confidential and shall not disclose such confidential information to any person or entity other than as required by law or legal process and other than

to each party's officers, directors, employees, accountants, auditors and other financial advisors, attorneys and other legal advisors, and others who have a "need to know".

10. No Further Modification. Except as set forth in this First Amendment, all of the terms and provisions of the Lease shall apply during the Extended Term and shall remain unmodified and in full force and effect. In the event of any conflict between the provision of this First Amendment and the provisions of the Lease, the provisions of this First Amendment shall control. Effective as of the date hereof, all references to the "Lease" shall refer to the Lease as amended by this First Amendment.

IN WITNESS WHEREOF, this First Amendment has been executed on the later of the dates set forth below.

"LANDLORD" AMERICAN FUND US INVESTMENTS LP,
a Delaware limited partnership

By: /s/ Florence Fricke-Radoux
Name: Florence Fricke-Radoux
Title: Vice President

By: /s/ Nico Brocar
Name: Nico Brocar
Title: Vice President

[SIGNATURES CONTINUED ON FOLLOWING PAGE)

"TENANT" VERACYTE, INC., a Delaware corporation

By: /s/ Julie A. Brooks

Name: Julie A. Brooks

Title: EVP, General Counsel

Date: May 20, 2016

[*] Certain confidential information contained in this document, marked by brackets, has been omitted and filed separately with the Securities and Exchange Commission pursuant to Rule 24b-2 of the Securities Exchange Act of 1934, as amended.

AMENDED AND RESTATED PATHOLOGY SERVICES AGREEMENT

THIS AMENDED AND RESTATED PATHOLOGY SERVICES AGREEMENT ("Agreement") is made this 16th day of October, 2017 (the "Effective Date"), by and among **VERACYTE, INC.,** a Delaware corporation ("Veracyte"), and **THYROID CYTOPATHOLOGY PARTNERS, P.A.**, a Texas professional association ("Pathologists"). Veracyte and Pathologists are sometimes referred to in this Agreement as a "**Party**" or, collectively, as the "**Parties**."

RECITALS

A. Veracyte and Pathologists' predecessors in interest, Brazos Valley Pathology, P.A. d/b/a Reitpath, entered into that certain Pathology Services Agreement dated November 12, 2010 (the "Original Effective Date"), as amended by the First Amendment, Second Amendment and Third Amendment (as amended, the "Original Agreement").

B. Veracyte and Pathologists now desire to enter into this Agreement in order to amend and restate the Original Agreement in its entirety.

C. Veracyte is engaged in the business of developing and marketing diagnostic testing utilizing Veracyte's proprietary molecular assays and procuring the related anatomic and cytologic pathology. Veracyte is not licensed to practice medicine, but does require the assistance of pathologists who are licensed in states in which Veracyte does business and in states in which patients who utilize Veracyte's services reside.

D. Pathologists is a Texas professional association which is engaged in the practice of medicine and specializes in pathology.

E. Veracyte desires to retain the services of Pathologists to provide professional pathology services on the terms and conditions stated herein.

AGREEMENT

THE PARTIES AGREE AS FOLLOWS:

1. **Engagement**.

(a) Scope of Engagement. Veracyte hereby grants to Pathologists the exclusive right to provide cytopathologic studies of thyroid specimens referred to Veracyte for cytology testing, except as set forth in Exhibit A ("Exceptions to Exclusivity"). Unless otherwise agreed in writing, Pathologists shall have no responsibility or liability for:

(i) the processing of any pathology specimens or for the performance of any clinical laboratory tests by Veracyte or any third party; and

(ii) any services provided by third party pathologists engaged by Veracyte pursuant to Section 9(b) below.

(b) Approved Physicians. Pathologists will provide the services through individual physicians listed on Exhibit B ("Approved Physicians"). From time to time additional physicians may be engaged by Pathologists to furnish services under this Agreement; provided, however, that each additional

physician must satisfy the professional standards and qualifications set forth in this Agreement. Veracyte shall have the sole discretion to approve any such physician in writing prior to furnishing services, provided that Pathologists are not in breach of this Agreement, then such approval may not be unreasonably withheld. Pathologists shall also undertake commercially reasonable efforts to hire a nationally recognized thyroid expert, on at least a part-time basis, to assist Pathologists in providing the Services (as defined below) pursuant to this Agreement.

(c) Geographic Limitation. Services will be provided in the Austin, Texas metropolitan area unless otherwise agreed.

(d) International Arrangements. The Parties shall meet and confer in good faith to negotiate the terms and conditions pursuant to which the Services may be provided by Pathologists for samples obtained outside of the United States by Veracyte. Veracyte may engage multiple service providers to provide the Services for patients located outside of the United States.

2. Duties and Responsibilities of Pathologists.

(a) Pathology Services. Pathologists shall provide physicians and other qualified professionals necessary to provide comprehensive professional cytology evaluation on thyroid specimens from patients referred to Veracyte. Pathology services include (collectively, the "Services"):

(i) macroscopic and microscopic examinations of thyroid cytology specimens including microscopic evaluation of cell blocks prepared on fluids from thyroid FNAs;

(ii) evaluation of thyroid FNAs;

(iii) on occasion TCP may receive requests for consultations as well as for evaluation of non-thyroid FNAs, such as salivary glands or Lymph Nodes;

(iv) interpretation of immunohistochemical stains

(v) the reporting of these examinations and findings in accordance with Veracyte's laboratory information system and protocols;

(vi) CPT-4 coding in compliance with all applicable federal, state and local laws, rules and regulations (collectively, the "Laws") with respect to the Medicare and Medicaid programs and any other Federal health care program, as defined at 42 U.S.C. Section 1320a-7b(f) (collectively, the "Federal Health Care Programs"); and

(vii) any additional services set forth on Exhibit C.

(b) Equipment. Pathologists shall provide all equipment required to perform the Services, including, but not limited to: microscopes, computers, telecommunications, networking capability, and other tools as necessary to provide the services. Veracyte shall provide or bear the cost of software for report generation and any additional hardware, software or computer system infrastructure required by Veracyte or needed to meet Veracyte's standards. If the Parties determine that transcription and dictation equipment and/or services are needed, the Parties shall, as soon as reasonably practicable, meet and confer in good faith to negotiate the responsibility for procurement and payment of such items.

(c) Consultation. Pathologists shall consult with Veracyte's laboratory director, if any, as clinically appropriate and in accordance with applicable licensing, accreditation and certification standards and requirements.

(d) Business Promotion. Pathologists shall assist Veracyte, at Veracyte's expense (which expenses shall be approved in advance by Veracyte), with promotion of the business as mutually agreed upon by the Parties. Pathologists shall also participate in Veracyte's branding and marketing programs as necessary to establish a unity of purpose in providing high quality technical and professional services to Veracyte's clients, all in compliance with the Laws applicable to the provision of clinical laboratory and pathology services under this Agreement. All marketing and promotion activities (which shall not include Pathologists' physician recruiting activities) shall be conducted solely at the direction of, as approved by, and in consultation with Veracyte. Veracyte shall have sole right and authority to approve the content and placement of any and all marketing and promotional materials relating to the Services provided under this Agreement.

(e) Compliance Program. Pathologists shall participate in and abide by Veracyte's compliance program, policies and procedures, as established or adopted from time to time.

(f) Designation of Agent. Tom Traweek, M.D. shall serve as Pathologists' sole and exclusive agent for purposes of communicating with Veracyte concerning the rights of Pathologists pursuant to this Agreement. Pathologists shall be bound by all actions and agreements made by this agent. Pathologists may designate, from time to time, a new agent, pursuant to written notice to Veracyte.

(g) Physician Compensation Arrangements. Pathologists represents and warrants to Veracyte that the compensation paid or to be paid by Pathologists to any physician is and will at all times be fair market value for services and items actually provided by such physician, not taking into account the value or volume of referrals or other business generated by such physician for Veracyte. Pathologists further represent and warrant to Veracyte that Pathologists has and will at all times maintain a written agreement with each physician receiving compensation from Pathologists.

3. Qualifications of Approved Physicians.

(a) Licenses and Certifications. Pathologists shall ensure that each Approved Physician: (i) has and maintains an unrestricted license to practice medicine in one or more of the Covered States as set forth herein, (ii) is and remains board certified in pathology by the applicable medical specialty board approved by the American Board of Medical Specialties, (iii) is and remains a participating provider in all Federal Health Care Programs, (iv) participates in continuing education as necessary to maintain licensure, professional competence and skills commensurate with the standards of the medical community, (v) meets all other licensing, credentialing and certification standards as mutually defined and agreed to during the term of this Agreement.

(b) Covered States. Veracyte may provide specimens from the fifty United States (the "Covered States").

(c) Notification of Issues. Pathologists shall notify Veracyte in writing within two (2) business days after Pathologists becomes aware of any one or more of the following events:

(i) Any Approved Physician becomes the subject of any suit, action or other legal proceeding arising out of Pathologists' professional services;

(ii) Any Approved Physician is required to pay damages or any other amount in any malpractice action by way of judgment or settlement;

(iii) Any Approved Physician becomes the subject of any disciplinary proceeding or action before any state's medical board or similar agency responsible for professional standards or behavior;

(iv) Any Approved Physician becomes permanently incapacitated or disabled from practicing medicine;

(v) Any act of nature or any other event occurs which has a material adverse effect on any Approved Physician's ability to perform the Services;

(vi) Any Approved Physician is charged with or convicted of a felony, a misdemeanor involving fraud, dishonesty, or moral turpitude, or any crime relevant to the practice of medicine; or

(vii) Any Approved Physician is debarred, suspended, excluded or otherwise ineligible to participate in any federal or state health care program.

(d) Mandatory Removal. Pathologists shall immediately remove any Approved Physician from furnishing Services under this Agreement who:

(i) has his or her state license to practice medicine or board certification denied, suspended, restricted, terminated, revoked or relinquished for any reason, whether voluntarily or involuntarily, temporarily or permanently, regardless of the availability of civil or administrative hearing rights or judicial review with respect thereto;

(ii) is debarred, suspended, excluded or otherwise ineligible to participate in any Federal Health Care Program; or

(iii) fails to be covered by the professional liability insurance required to be maintained under this Agreement.

(e) Removal Upon Request. Upon written request by Veracyte, Pathologists shall immediately remove any Approved Physician from furnishing Services under this Agreement who:

(i) engages in conduct that, in Veracyte's good faith determination, jeopardizes or damages the reputation of Veracyte;

(ii) fails to satisfy any of the standards and qualifications set forth in this Agreement;

(iii) fails to comply with any other material terms or conditions of this Agreement after being given written notice of that failure and a reasonable opportunity to comply;

(iv) within a twelve (12) month period, has two (2) or more medical malpractice claims filed against him or her; or

(v) is charged with or convicted of a felony, a misdemeanor involving fraud, dishonesty, or moral turpitude, or any crime relevant to the practice of medicine.

4. Duties and Responsibilities of Veracyte.

(a) Laboratory. Veracyte shall be responsible for its cytology and molecular lab, its functions, quality and licensure.

(b) Slide Storage. Veracyte shall maintain and store all slides.

(c) Shipping. Veracyte shall ship specimens to Pathologists and pay for cost of return shipping to Veracyte for storage and reporting.

(d) Clinical Information. Veracyte shall provide all clinical information accompanying any specimens and a manifest of shipment contents.

(e) Software. Veracyte shall be responsible for dictation and reporting software. Veracyte shall also provide any billing or networking or other software needed.

(f) Managed Care Contracting. Except as otherwise provided in Section 9, below, Veracyte shall be responsible for all managed care contracting.

(g) Payment. Veracyte shall pay Pathologists in a timely manner as provided in the Agreement.

5. Practice of Medicine. Pathologists and Veracyte acknowledge that Veracyte is neither authorized nor qualified to engage in any activity which may be construed or deemed to constitute the practice of medicine. Accordingly, Veracyte shall not engage in the practice of medicine nor seek to provide the Services to be provided by Pathologists under this Agreement through its own physician employees or contractors. To the extent that any act or service required of, or reserved to, Veracyte in this Agreement is construed or deemed to constitute the practice of medicine, the performance of such act or service by Veracyte shall be deemed waived or unenforceable, unless this Agreement can be amended to comply with the law, in which case the Parties shall make such amendment.

6. Term. This Agreement shall become effective on the Effective Date, and shall continue until October 31, 2022 (the "Expiration Date"), unless terminated earlier as provided herein. The Agreement shall automatically renew for successive one (1) year terms unless either Party gives written notice of its intention not to renew this Agreement at least twelve (12) months prior to the end of the then current term.

7. Termination.

(a) Termination by Pathologists. Pathologists shall have the right to terminate this Agreement immediately upon the occurrence of the following:

(i) The insolvency of Veracyte;

(ii) The suspension, revocation, termination or other restriction on Veracyte's laboratory license;

(iii) Failure of Veracyte to pay any undisputed amounts due hereunder within sixty (60) days after the receipt of written notice; or

(iv) Breach of the Agreement by Veracyte and its failure to cure such breach within sixty (60) days after the delivery of written notice thereof.

(b) Termination by Veracyte. Veracyte shall have the right to terminate this Agreement immediately upon the occurrence of any of the following:

(i) The insolvency of Pathologists;

(ii) The suspension or termination of Pathologists from any Federal Health Care Program;

(iii) Breach of the agreement by Pathologists and its failure to cure such breach within sixty (60) days after the delivery of written notice thereof; or

(iv) There is a "Substantial Change" in Pathologists, which Substantial Change has not received written approval, or subsequent ratification by Veracyte, whose approval or ratification shall not be unreasonably withheld. For purposes of this section, "Substantial Change" means the turnover ratio for Approved Physicians exceeds thirty percent (30%) in any two-year period, whether due to retirement, withdrawal, termination, suspension or otherwise.

(c) Termination of Ancillary Agreements. In further consideration of their agreements herein, the parties hereby terminate, effective immediately, the following written contracts: (i) that certain Management Services Agreement dated December 1, 2010 between Pathologists and Pathology Resource Consultants, LP ("PRC"), as amended, which agreement was assigned by PRC on this date to Veracyte; and (ii) that certain Services Agreement dated November 12, 2010 between PRC and Veracyte, as amended, which agreement was assigned on this date by PRC to Pathologists.

8. Compensation, Billing and Collection.

(a) Right to Bill. Except as otherwise provided in Section 9 below:

(i) Veracyte shall have the sole and exclusive right to bill and collect for any and all Services rendered by Pathologists pursuant to this Agreement and shall have the sole and exclusive right, title and interest in and to accounts receivable with respect to such pathology services.

(ii) Pathologists shall seek and obtain compensation for the performance of the Services only from Veracyte. Pathologists shall not bill, assess or charge any fee, assessment or charge of any type against any patient or any other person or entity for Services rendered by Pathologists pursuant to this Agreement. Pathologists shall promptly deliver to Veracyte any and all compensation, in whatever form, that is received by Pathologists for Services rendered by Pathologists pursuant to this Agreement.

(b) Pathologists' Fee. Veracyte shall pay Pathologists for each specimen according to the fee schedule attached hereto as Exhibit E. Pathologists shall be paid within sixty (60) days after the end of the calendar month in which Pathologists complete the Services. Veracyte may bill patients and/or their third party payors, and payment to Pathologists is not contingent upon Veracyte's receipt of payment.

(c) Assignment of Claims. Pathologists hereby assigns (or reassigns, as the case may be) to Veracyte all claims, demands and rights of Pathologists for payment for any and all Services rendered by Pathologists pursuant to this Agreement. Pathologists shall take such action and execute such documents as may be reasonably necessary or appropriate to effectuate the assignment (or reassignment, as the case may be) to Veracyte of all claims, demands and rights of Pathologists for payment for any and all Services rendered by Pathologists pursuant to this Agreement.

(d) Expense Reimbursements.

(i) Veracyte shall reimburse Pathologists for all reasonable and necessary business expenses incurred by Pathologists in connection with the performance of the Services, including shipping, postage, transcription fees, external consults performed at Veracyte's request, etc.; provided that: (l) Pathologists have obtained prior written approval of Veracyte to incur expenses greater than Five Hundred Dollars ($500), (2) the expenses are directly related to the performance of the Services under this Agreement, (3) the expenses meet the requirements for reimbursement under Veracyte policies, and (4) Pathologists submit receipts to Veracyte within sixty (60) days of incurring the expenses. Receipts submitted to Veracyte after sixty (60) days may or may not be paid at the sole discretion of Veracyte.

(ii) Veracyte shall reimburse Pathologists for reasonable and necessary expenses incurred by Pathologists in connection with all sales and marketing activities to promote or represent Veracyte; provided that such sales and marketing activities and expenses are approved in advance by Veracyte.

(iii) Pathologists shall assume all financial responsibility for the costs incurred on or after January 1, 2013 for licensing all Approved Physicians, including, without limitation, any patient compensation fund contribution requirements required by any applicable state law.

(iv) Effective as of January 1, 2013, Pathologists shall be entitled to use one or more offices as mutually agreed from time to time in office space leased by Veracyte at 12357 A Riata Trace Parkway, Building 5, Austin, Texas 78727 (the "Premises"), pursuant to the Lease Agreement dated November 28, 2012 between Riata Holdings, L.P. and Veracyte (as amended from time to time, the "Lease"). Commencing on May 1, 2013, Pathologists shall reimburse Veracyte the proportionate share, including common areas, (based on the ratio of office space used by Pathologists relative to the total space leased by Veracyte) of Veracyte's actual out-of-pocket occupancy costs for such space including base rent and operating expenses. Pathologists acknowledges that it has reviewed the Lease. Pathologists shall comply with all of the terms and conditions of the Lease, and, in the event a default under the Lease arises from any act or omission of Pathologists or its employees, agents or invitees, then (1) Pathologists shall promptly cure such default, and (2) Pathologists shall indemnify, defend and hold Veracyte harmless from all losses, costs, liabilities and damages (collectively, "Claims") arising from such act or omission, including any Claims by the landlord under the Lease. Without limiting the generality of the foregoing, Pathologists shall obtain the following insurance coverages: commercial general liability insurance (including property damage, bodily injury and personal injury coverage) in amounts of $1,000,000 per occurrence, $2,000,000 annual aggregate; with an additional $1,000,000 in umbrella coverage; commercial auto liability insurance covering automobiles owned, hired or used by a Permitted Occupant in carrying on its business at the Premises with limits not less than $1,000,000 combined single limit for each accident; and workers' compensation insurance.

9. Third Party Payor Arrangements.

(a) Cooperation. Pathologists shall reasonably cooperate with Veracyte at Veracyte's expense in the billing and collection of fees with respect to Services rendered by Pathologists pursuant this Agreement. Without limiting the generality of the foregoing, Pathologists shall reasonably cooperate with Veracyte: (i) in providing information to permit Veracyte to complete such claim forms with respect to Services rendered by Pathologists pursuant to this Agreement as may be required by insurance carriers, health care service plans, governmental agencies, or other third party payors; and (ii) in all reasonable respects necessary to facilitate Veracyte's entry into or maintenance of any third party payor arrangements for the provision of services under Federal Health Care Programs or any other public or private health care programs,

including insurance programs, self-funded employer health programs, health care service plans and preferred provider organizations.

(b) Enrollment as provider. If Veracyte is not permitted to participate in any third-party payor arrangement that includes the Services, Veracyte may request Pathologists to:

(i) Enroll as a provider, separate from Veracyte, in any third party payor arrangement designated by Veracyte, with respect to services provided pursuant to this Agreement;

(ii) Enter into an express contractual agreement with said third party payor, or with any intermediate organization, including any independent practice association, as required to effect Pathologists' enrollment as a provider; and/or

(iii) Enter into an express contractual agreement with Veracyte regarding global billing, capitation or other payment arrangements that cover Veracyte services and pathology services, as necessary to implement the third party payor arrangement.

Notwithstanding any other provision in this Agreement, upon Pathologists' failure for any reason to take any of the steps above within ten (10) business days after receipt of a written request, Veracyte may engage an additional service provider to provide the Services for patients covered by the third-party payor in question.

10. Insurance.

(a) Insurance. Pathologists shall at its own expense maintain professional errors and omissions insurance with policy limits of at least One Million Dollars ($1,000,000) per claim and Three Million Dollars ($3,000,000) annual aggregate for each Approved Physician. Veracyte shall at its own expense maintain professional malpractice insurance for its laboratory operations with policy limits of at least Three Million Dollars ($3,000,000).

(b) Waiver of Subrogation. Whenever (a) any loss, cost, damage or expense resulting from professional malpractice is incurred by either Party and (b) such Party is then covered (or is required under this Agreement to be covered) in whole or in part by insurance with respect to such loss, cost, damage or expense, then the Party so insured hereby releases the other Party from any liability it may have on account of such loss, cost, damage or expense to the extent of any amount recovered by reason of such insurance, and waives any right of subrogation which might otherwise exist on account thereof, provided that such release of liability and waiver of the right to subrogation shall not be operative in any case where the effect thereof is to invalidate such insurance coverage or increase the cost thereof. The Parties shall use their respective best efforts to obtain such a release and waiver of subrogation from their respective insurance carriers and shall obtain any special endorsements, if required by their insurer, to evidence compliance with the aforementioned waiver. The releases granted herein shall include releases of claims caused by negligence.

11. Indemnity.

(a) Indemnity by Pathologists. Pathologists shall indemnify and defend Veracyte from and against any claims arising out of (i) the breach of this Agreement by Pathologists, and/or (ii) from Pathologists' professional errors or omissions.

(b) Indemnity by Veracyte. Veracyte shall indemnify and defend Pathologists against any claims arising out of (i) the breach of this Agreement by Veracyte, (ii) the preparation of any pathology specimens by Veracyte, and/or (iii) the operation of the cytology or molecular laboratories, and/or (iv) the

wrongful disclosure of any patient protected health information by Veracyte or as a result of any defects in any software or computer system provided or maintained by Veracyte.

12. Cooperation between the Parties.

(a) General Duty to Cooperate. The Parties: (1) shall interact professionally, positively and respectfully with each other and with all of their respective employees and contractors; (2) shall not in any way intentionally disparage or otherwise communicate to third parties negative facts, statements or opinions regarding the other and their respective Board members, partners, employees or business; and (3) shall at all times perform the Services in a manner that is in the best interests of Veracyte and in the best interests and safety of patients. Pathologists agree to reasonably cooperate with Veracyte in: any pending or future government or payor investigation; any litigation, arbitration or other dispute resolution involving Veracyte; and any internal investigation Veracyte may conduct. Veracyte shall reimburse Pathologists for all expenses reasonably incurred by Pathologists in compliance with this Section 12(a), except that Veracyte shall not pay Pathologists for Pathologists' expenses in any dispute resolution where Pathologists are a co-defendant in an action brought by a third party.

(b) Claim Resolution. The Parties recognize that, during the term of this Agreement and for a period thereafter, certain risk management issues, legal issues, claims or actions may arise that involve or could potentially involve the Parties and their respective employees and agents. The Parties further recognize the importance of cooperating with each other in good faith when such issues, claims or actions arise, to the extent such cooperation does not violate any applicable laws, cause the breach of any duties created by any policies of insurance or programs of self-insurance, or otherwise compromise the confidentiality of communications or information regarding the issues, claims or actions. As such, the Parties hereby agree to cooperate in good faith, using their best efforts, to address such risk management and claims handling issues in a manner that strongly encourages full cooperation between the Parties.

13. Noncompetition/Nonsolicitation.

(a) Noncompetition. During the term of this Agreement, Pathologists shall not, without first obtaining the prior written consent of Veracyte, provide cytopathologic studies of thyroid specimens. Pathologists shall ensure that each of the physicians that are providing the Services under this Agreement shall not provide a service that is similar to the Services to any third party.

(b) Nonsolicitation of Employees. Each Party agrees that during the term of the Agreement and for two (2) years after the termination for any reason, it will not solicit the employment of any employee or contractor of the other Party. Furthermore, Veracyte may not directly or indirectly employ, engage or use the services of any physician who Veracyte required that Pathologists remove from providing Services hereunder. Notwithstanding the foregoing, if Pathologists fail to provide the Services under this Agreement, Veracyte may deliver notice to Pathologists describing such failure and if Pathologists do not cure such failure within thirty (30) days after receipt of such notice, Veracyte shall have the right to enter into agreements directly with the physicians that have provided the Services under this Agreement.

14. Confidentiality.

(a) Confidential Information. Each Party recognizes and acknowledges that, by virtue of entering into this Agreement and performing their respective obligations hereunder, each Party may have access to certain information of the other Party that is confidential and constitutes proprietary, valuable, special and unique property of the other Party. The Parties agree that they shall not at any time, either during or subsequent to the term of this Agreement, disclose to others, use, copy or permit to be copied, without the

express prior written consent of the other Party whose confidential information is so disclosed or used, except pursuant to the performance of such Party's duties thereunder, any confidential or proprietary information of the other Party, including, but not limited to, information which concerns clients and their respective patients, costs, or methods of operation or marketing, and which is not otherwise available to the public.

(b) Disclosure of Terms of this Agreement. Except for disclosure to a Party's legal counsel, accountants or financial advisors, neither Party shall disclose the terms of this Agreement to any person who is not a party or signatory, unless disclosure thereof is required by law or otherwise authorized by this Agreement or consented to in writing by the other Party.

(c) Patient Information. Pathologists shall not disclose to any third party, except where permitted or required by law or where such disclosure is expressly approved by Veracyte in writing, any patient or medical record information regarding patients of Veracyte, and Pathologists shall comply with all federal and state laws and regulations regarding the confidentiality of such information. Pathologists acknowledge and agree that it shall be deemed to constitute a "business associate" of Veracyte as such term is defined in the Health Insurance Portability and Accountability Act of 1996, as amended by the Health Information, Technology for Economic and Clinical Health Act of 2009 (collectively, "HIPAA"). Accordingly, Pathologists shall comply with all applicable provisions of HIPAA and the regulations and rules promulgated thereto, including, without limitation, executing and delivering to Veracyte a business associate agreement in the form as attached as Exhibit G hereto.

(d) Survival. The provisions of this Section 14 shall survive expiration or other termination of this Agreement, regardless of the cause of such termination.

15. Miscellaneous Provisions.

(a) Independent Contractor. In performance of all work, duties and obligations under this Agreement, Pathologists are at all times acting and performing as independent contractors practicing the profession of medicine. Veracyte shall have no control or direction over the methods by which Pathologists perform the work and functions required by this Agreement. Pathologists have sole responsibility for the recruitment, retention and compensation of physicians providing Services under this agreement.

(b) Tradename. To the extent that Pathologists adopt a legal name, tradename and/or servicemark that is derivative of "Veracyte," use of such derivative shall be subject to Veracyte's prior written approval and subject to a revocable license granted by Veracyte, which license shall be revoked and terminate upon termination or expiration of this Agreement.

(c) Governing Law. This Agreement will be governed by the laws of the State of Texas.

(d) Assignment. No assignment of this Agreement or the rights and obligation hereunder shall be valid without the specific written consent of both Parties hereto. This is not a third party beneficiary agreement. Notwithstanding the foregoing, the Parties agree that either Party may assign this Agreement without such consent (a) to any entity which is controlled by or under common control with that Party, or (b) in connection with the transfer or sale of all or substantially all of its business or assets related to this Agreement, or in the event of its merger, consolidation, change in control or other similar transaction.

(e) Notices. All notices, requests, demands and any other communications required or permitted hereunder shall be in writing and shall be deemed to have been duly delivered in person or if sent by registered or certified first class United States mail, postage prepaid, or via electronic mail, to:

If to Veracyte:

Veracyte, Inc.
6000 Shoreline Court, Suite 300
South San Francisco, CA 94080
Attention: Bonnie Anderson
email: bonnie@veracyte.com
copy email: keith@veracyte.com

with copy to:

Fenwick & West LLP
555 California St., 12th Floor
San Francisco, CA 94104
Attention: Doug Cogen
email: dcogen@fenwick.com

If to Pathologists:

Thyroid Cytopathology Partners, P.A.
12357 A Riata Trace Parkway
Building 5, Ste 100
Austin, Texas 78727
Attention: Tom Traweek, M.D.
email: tom@thyroidcytopath.com

with copy to:

Locke Lord LLP
2200 Ross Avenue
Suite 2800
Dallas, TX 75201
Attention: Jack Jacobsen
email: jjacobsen@lockelord.com

Any of the undersigned may from time to time change said addresses by written notice to the other Party as provided in this Agreement.

(f) Entire Agreement. This Agreement contains the complete, full and exclusive understanding of the Parties with respect to the subject matter hereof and supersedes any and all other agreements between the Parties with respect to this subject matter, including the Original Agreement provided that all rights and obligations that accrued under the Original Agreement prior to the Effective Date shall continue in accordance with the terms of the Original Agreement.

(g) Headings. All headings are for convenience only and shall not be construed to modify the substance of this Agreement.

(h) Amendments. Any amendments, additions or supplements to this Agreement shall be effective and binding on the Parties only if in writing and signed by each Party to this Agreement.

(i) Severability. If any provision of this Agreement is found to be invalid or unenforceable, such provision shall be deemed stricken from this Agreement and the remainder of this Agreement shall remain in full force and effect. The Parties shall negotiate in good faith to amend the Agreement to replace any provision found to be invalid or unenforceable with a valid and enforceable provision which, as nearly as possible, accomplishes the original objectives of the Parties.

(j) Waivers. One or more waivers by either Party of a breach of this Agreement by the other Party shall not be construed as a waiver of further breaches of this Agreement.

(k) Inurement. This Agreement shall be binding upon and shall inure to the benefit of each of the Parties hereto, their heirs, estates, spouses, executors, administrators, partners, successors and assigns.

(l) Multiple Counterparts. This Agreement may be executed in multiple counterparts, each of which shall be deemed an original and each alone and all together shall constitute one and the same instrument.

(m) Arbitration.

(i) Any controversy or claim arising out of or relating to this Agreement shall be settled by binding arbitration in accordance with the applicable rules of the American Arbitration Association or a successor organization (the "Arbitration Company"), or such other rules as may be agreed upon by the Parties, and judgment upon the award rendered by the arbitrators may be entered in any court having jurisdiction thereof, subject to the following terms, conditions, and exceptions:

(ii) There shall be one (1) arbitrator agreed to by the Parties from the Arbitration Company or, if the Parties cannot agree on one arbitrator, there shall be three (3) arbitrators whose selection shall be made in accordance with the procedures then existing for the selection of such arbitrators by the Arbitration Company.

(iii) The venue of any arbitration shall be Travis County, Texas, and the arbitration shall be conducted in accordance with the laws of the State of Texas.

(iv) Notwithstanding any provision of Texas law or the applicable rules of the Arbitration Company to the contrary, each Party shall have all of the rights of discovery pertaining to civil litigation as provided in Texas law. Unless the Parties otherwise agree in writing, any arbitration hereunder shall be conducted in accordance with the rules of evidence existing in the State of Texas at the time of the arbitration.

(v) Each of the Parties will share equally in the costs and expenses of arbitration unless the arbitrators find that the position of the non-prevailing Party in such arbitration was without substantial justification, in which event the arbitrators may assess all or an unequal portion of such costs and expenses together with reasonable attorneys' fees against the non-prevailing Party, as the arbitrators deem equitable.

[signature page follows]

IN WITNESS WHEREOF, the Parties hereto have caused this Agreement to be executed as of the day and year first written above.

PATHOLOGISTS	**VERACYTE, INC.**
THYROID CYTOPATHOLOGY	
PARTNERS, P.A	
By: /s/ Tom Traweek	By: /s/ Bonnie Anderson
Its: Chief and President	Its: Chief Executive Officer

EXHIBIT A

EXCEPTIONS TO EXCLUSIVITY

NONE

EXHIBIT B

APPROVED PHYSICIANS

Dr. Tom Traweek
Dr. Cherry Starling
Dr. Kelly Gilliland
Dr. Laura Been
Dr. Robert Domingo
Dr. Sharon Hirsh
Dr. Michelle Horton
Dr. Lorna Ogden
Dr. Cindi Snowden
Dr. Sharenda Williams
Dr. Karen Nauschuetz

EXHIBIT C

ADDITIONAL PATHOLOGY SERVICES

NONE

EXHIBIT D

[RESERVED]

EXHIBIT E

FEE SCHEDULE

Period	Price per Nodule
October 1, 2017 - September 30, 2019	$[*]
October 1, 2019 - October 31, 2022	$[*]

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EXHIBIT F

RESERVED

EXHIBIT G

BUSINESS ASSOCIATE AGREEMENT

This Business Associate Agreement (the "Agreement") is made by and among **VERACYTE, INC**., a California corporation (herein referred to as "Covered Entity") and **THYROID CYTOPATHOLOGY PARTNERS, P.A.**, a Texas professional association (hereinafter referred to as "Business Associate"). Covered Entity and Business Associate shall be collectively referred to herein as the "Parties",

WHEREAS, Covered Entity is entering into a business relationship with Business Associate that is memorialized in that certain Amended and Restated Pathology Services Agreement (the "Underlying Agreement") entered into as of even date herewith pursuant to which Business Associate may be considered a "business associate" of Covered Entity as defined in the Health Insurance Portability and Accountability Act of 1996 ("HIPAA") including all pertinent regulations (45 CFR Parts 160 and 64) issued by the U.S. Department of Health and Human Services as either have been amended by Subtitle D of the Health Information Technology for Economic and Clinical Health Act (the "HITECH Act"), as Title XIII of Division A and Title IV of Division B of the American Recovery and Reinvestment Act of 2009 (Pub. L. 111-5); and

WHEREAS, the nature of the prospective contractual relationship between Covered Entity and Business Associate may involve the exchange of Protected Health Information ("PHI") as that term is defined under HIPAA; and

For good and lawful consideration as set forth in the Underlying Agreement, Covered Entity and Business Associate enter into this agreement for the purpose of ensuring compliance with the requirements of HIPAA, its implementing regulations, the HITECH Act and relevant State law;

NOW THEREFORE, the premises having been considered and with acknowledgment of the mutual promises and of other good and valuable consideration herein contained, the Parties, intending to be legally bound, hereby agree as follows:

DEFINITIONS.

Individual. "Individual" shall have the same meaning as the term "individual" in 45 CFR §164.501 and shall include a person who qualifies as a personal representative in accordance with 45 CFR §164.502(g).

Breach. "Breach" shall have the same meaning as the term "breach" in § 13400 of the HITECH Act and shall include the unauthorized acquisition, access, use, or disclosure of PHI that compromises the security or privacy of such information.

Designated Record Set. "Designated Record Set" shall have the same meaning as the term "designated record set" in 45 CFR §164.501.

Privacy Rule. "Privacy Rule" shall mean the Standards for Privacy of Individually Identifiable Health Information at 45 CFR Part 160 and Part 164, Subparts A and E, as amended by the HITECH Act and as may otherwise be amended from time to time.

Protected Health Information. "Protected Health Information" or "PHI" shall have the same meaning as the term "protected health information" in 45 CFR §164.501, limited to the information created or received

by Business Associate from or on behalf of Covered Entity.

Required by Law. “Required by Law” shall have the same meaning as the term “required by law” in 45 CFR §164.501.

Secretary. “Secretary” shall mean the Secretary of the U.S. Department of Health and Human Services or his or her designee.

Security Rule. The “Security Rule” shall mean the regulations found at 45 CFR Parts 160 and 164, Subpart C, as may be amended from time to time.

Unsecured Protected Health Information. “Unsecured Protected Health Information” or “Unsecured PHI” shall mean PHI that is not secured through the use of a technology or methodology specified by the Secretary in guidance or as otherwise defined in the §13402(h) of the HITECH Act.

USE OR DISCLOSURE OF PHI BY BUSINESS ASSOCIATE.

Except as otherwise limited in this Agreement, Business Associate may use or disclose Protected Health Information to perform functions, activities, or services for, or on behalf of, Covered Entity as specified in the Underlying Agreement, provided that such use or disclosure would not violate the Privacy Rule.

Business Associate shall only use and disclose PHI if such use or disclosure complies with each applicable requirement of 45 CFR §164.504(e).

DUTIES OF BUSINESS ASSOCIATE RELATIVE TO PHI.

Business Associate shall not use or disclose PHI other than as permitted or required by this Agreement or as Required by Law.

Business Associate shall be directly responsible for full compliance with the relevant requirements of the Privacy Rule to the same extent as Covered Entity.

Business Associate shall comply with the provisions of the Security Rule directing the implementation of administrative, physical and technical safeguards for electronic-PHI (“e-PHI”) and the development and enforcement of related policies, procedures, and documentation standards (including but not limited to designation of a security official).

In the event of an unauthorized use or disclosure of PHI or a Breach of Unsecured PHI, Business Associate shall mitigate, to the extent practicable, any harmful effects of said disclosure that are known to it.

Business Associate agrees to ensure that any agent, including a subcontractor, to whom it provides Protected Health Information received from, or created or received by Business Associate on behalf of Covered Entity, agrees to the same restrictions and conditions that apply through this Agreement to Business Associate with respect to such information.

To the extent applicable, Business Associate shall provide access to Protected Health Information in a Designated Record Set at reasonable times, at the request of Covered Entity or, as directed by Covered Entity, to an Individual in order to meet the requirements under 45 CFR §164.524.

Business Associate will, upon receipt of written notice from Covered Entity, promptly amend or

permit Covered Entity access to amend any portion of Covered Entity's PHI so that Covered Entity may meet its amendment obligations under 45 CFR §164.526.

Business Associate shall, upon request with reasonable notice, provide Covered Entity access to its premises for a review and demonstration of its internal practices and procedures for safeguarding PHI.

Business Associate agrees to document such disclosures of PHI and information related to such disclosures as would be required for a Covered Entity to respond to a request by an Individual for an accounting of disclosures of PHI in accordance with 45 C.F.R. §164.528. Should an Individual make a request to Covered Entity for an accounting of disclosures of his or her PHI pursuant to 45 C.F.R. §164.528, Business Associate agrees to promptly provide Covered Entity with information in a format and manner sufficient to respond to the Individual's request.

Business Associate shall, upon request with reasonable notice, provide Covered Entity with an accounting of uses and disclosures of PHI provided to it by Covered Entity.

Business Associate shall make its internal practices, books, records, and any other material requested by the Secretary relating to the use, disclosure, and safeguarding of PHI received from Covered Entity available to the Secretary for the purpose of determining compliance with the Privacy Rule. The aforementioned information shall be made available to the Secretary in the manner and place as designated by the Secretary or the Secretary's duly appointed delegate. Under this Agreement, Business Associate shall comply and cooperate with any request for documents or other information from the Secretary directed to Covered Entity that seeks documents or other information held by Business Associate.

Business Associate may use Protected Health Information to report violations of law to appropriate Federal and State authorities, consistent with 42 C.F.R. §164.502(j)(1).

Except as otherwise limited in this Agreement, Business Associate may disclose PHI for the proper management and administration of Business Associate, provided that disclosures are Required by Law, or Business Associate obtains reasonable assurances from the person to whom the information is disclosed that it will remain confidential and used or further disclosed only as Required by Law or for the purpose for which it was disclosed to the person, and the person notifies Business Associate of any instances of which it is aware in which the confidentiality of the information has been breached.

REPORTING.

A. Privacy Breach. Business Associate will report to Covered Entity any use or disclosure of Covered Entity's PHI that is not permitted by this Agreement or the Underlying Agreement. In addition, Business Associate will report to Covered Entity, following discovery and without reasonable delay, but in no event later than ten (10) days following discovery, any suspected or actual "Breach" of "Unsecured Protected Health Information" as these terms are defined by the HITECH Act and any implementing regulations. Business Associate shall cooperate with Covered Entity in investigating the potential or actual breach and in meeting Covered Entity's obligations under the HITECH Act and any other state or federal privacy or security breach notification laws. Any such report shall contain at a minimum the information set forth on Attachment A attached hereto and incorporated by reference. Since time is of the essence under the HITECH Act, in addition to providing the report in accordance with the notice provisions contained in Section XI below, a copy of the report shall be faxed to the Privacy Officer at (615)695-8426 or to such other person as Covered Entity shall request in writing of Business Associate.

TERM AND TERMINATION.

Term. The Term of this Agreement shall be effective as of the date the Underlying Agreement is effective, and shall terminate when all of the Protected Health Information provided by Covered Entity to Business Associate, or created or received by Business Associate on behalf of Covered Entity, is destroyed or returned to Covered Entity, or, if it is infeasible to return or destroy Protected Health Information, protections are extended to such information, in accordance with the termination provisions in this Section V.

A. Termination for Cause. Upon Covered Entity's knowledge of a material breach by Business Associate, Covered Entity shall:

Provide a reasonable opportunity for Business Associate to cure the breach or end the violation and, if Business Associate does not cure the breach or end the violation within the reasonable time specified by Covered Entity, terminate this Agreement;

Immediately terminate this Agreement if Business Associate has breached a material term of this Agreement and cure is not possible; or

If neither termination nor cure is feasible, report the violation to the Secretary.

Effect of Termination.

Except as provided in paragraph C(2) of this section, upon termination of this Agreement, for any reason, Business Associate shall return or destroy (at Covered Entity's sole discretion) all Protected Health Information received from Covered Entity, or created or received by Business Associate on behalf of Covered Entity. This provision shall apply to Protected Health Information that is in the possession of subcontractors or agents of Business Associate. Business Associate shall not retain any copies of the Protected Health Information. Any information that is in electronic format shall be provided to Covered Entity at no additional charge. The format to be provided should be one that is commonly used for export (i.e. comma delimited, text file, Word, Excel or Access database) that is agreeable to Covered Entity.

In the event that Business Associate determines that returning or destroying the Protected Health Information is infeasible, Business Associate shall provide to Covered Entity written notification of the conditions that make return or destruction infeasible. After written notification that return or destruction of Protected Health Information is infeasible, Business Associate shall extend the protections of this Agreement to such Protected Health Information and limit further uses and disclosures of such Protected Health Information to those purposes that make the return or destruction infeasible, for so long as Business Associate maintains such Protected Health Information.

Should Business Associate make a disclosure of PHI in violation of this Agreement, Covered Entity shall have the right to immediately terminate any contract, other than this Agreement, then in force between the Parties, including the Underlying Agreement.

REMEDIES IN EVENT OF BREACH AND INDEMNIFICATION. Business Associate hereby recognizes that irreparable harm may result to Covered Entity, and to the business of Covered Entity, in the event of breach by Business Associate of any of the covenants and assurances contained in this Agreement. As such, in the event of breach of any of the covenants and assurances contained in Sections II, III or IV above, Covered Entity shall be entitled to enjoin and restrain Business Associate from any continued violation of Sections II, III or IV. Furthermore, Business Associate will indemnify, defend and hold harmless Covered Entity, its officers, directors, employees, agents, and assigns, from and against any and all losses, liabilities,

damages, costs, and expenses (including reasonable attorneys' fees) arising out of or related to the Business Associate's breach of its obligations under this Agreement.

MODIFICATION. This Agreement may only be modified through a writing signed by the Parties. The Parties agree to take such action as is necessary to amend this Agreement from time to time as is necessary for Covered Entity to comply with the requirements of the Privacy Rule and HIPAA.

INTERPRETATION OF THIS CONTRACT IN RELATION TO OTHER CONTRACTS BETWEEN THE PARTIES. Should there be any conflict between the language of this contract and any other contract entered into between the Parties (either previous or subsequent to the date of this Agreement), the language and provisions of this Agreement shall control and prevail unless the Parties specifically refer in a subsequent written agreement to this Agreement by its title and date and specifically state that the provisions of the later written agreement shall control over this Agreement.

COMPLIANCE WITH STATE LAW. If the HIPAA Privacy or Security Rules and the law of the State in which Covered Entity is located conflict regarding the degree of protection provided for protected health information, Business Associate shall comply with the more restrictive protection requirement.

MISCELLANEOUS.

Ambiguity. Any ambiguity in this Agreement shall be resolved to permit Covered Entity to comply with the Privacy Rule.

Notice to Covered Entity. Any notice required under this Agreement to be given Covered Entity shall be made in writing to:

Veracyte, Inc.
6000 Shoreline Court, Suite 300
South San Francisco, CA 94080
Attention: Bonnie Anderson

with copy to:

Fenwick & West LLP
555 California St., 12th Floor
San Francisco, CA 94104
Attention: Doug Cogen

Notice to Business Associate. Any notice required under this Agreement to be given Business Associate shall be made in writing to:

Thyroid Cytopathology Partners, P.A.
12357 A Riata Trace Parkway
Building 5, Ste 100
Austin, Texas 78727
Attention: Tom Traweek, M.D.

with copy to:

Locke Lord LLP

2200 Ross Avenue
Suite 2800
Dallas, TX 75201
Attention: Jack Jacobsen

IN WITNESS WHEREOF and acknowledging acceptance and agreement of the foregoing, the Parties affix their signatures hereto.

COVERED ENTITY:	BUSINESS ASSOCIATE:
By: _____	By: _____
Name: _____	Name: _____
Title: _____	Title: _____

ATTACHMENT A

FORM OF NOTIFICATION TO COVERED ENTITY OF

BREACH OF UNSECURED PHI

This notification is made pursuant to the Business Associate Agreement between **VERACYTE, INC**., a California corporation ("Covered Entity"), and **THYROID CYTOPATHOLOGY PARTNERS, P.A.**, a Texas professional association ("Business Associate").

Business Associate hereby notifies Covered Entity that there has been an actual or potential breach of unsecured (unencrypted) protected health information (PHI) that Business Associate has used or has had access to under the terms of the Business Associate Agreement.

Description of the breach: _____

_____

Date of the breach: _____ Date breach _____

Number of individuals affected by the breach: _____

Indicate type of breach:

- o Theft
- o Loss
- o Improper Disposal
- o Unauthorized Access
- o Hacking/IT Incident
- o Other:_____

Location of Breached Information:

- o Laptop
- o Desktop Computer
- o Email
- o Portable Media/Device
- o EMR
- o Paper
- o Other:_____

A description of the types of unsecured PHI that were involved in the breach (Demographic - full or partial name, Social Security number, date of birth, home address, account number, or disability code; Financial - billing information, credit card # or check/bank account number; Clinical - any mention of diagnosis, procedure, treatment provided, or ICD-9-CM or CPT-codes; Other):

What safeguards were in place prior to the breach: (Circle all that apply) Firewalls, packet filtering, secure browser, strong authentication, encrypted wireless, physical security (explain), logic access control, anti-virus software (list product name), intrusion detection, biometrics, etc.:

Description of what Business Associate is doing to investigate the breach, to mitigate losses, and to protect against any further breaches:

Contact information to ask questions or learn additional information:

Name:

Title:

Address:

Email Address:

Phone Number:

LOAN AND SECURITY AGREEMENT

THIS LOAN AND SECURITY AGREEMENT (this "Agreement") dated as of November 3, 2017 (the "**Effective Date**") between **SILICON VALLEY BANK**, a California corporation ("**Bank**"), and **VERACYTE, INC.**, a Delaware corporation ("**Borrower**"), provides the terms on which Bank shall lend to Borrower and Borrower shall repay Bank. The parties agree as follows:

1 ACCOUNTING AND OTHER TERMS

Accounting terms not defined in this Agreement shall be construed following GAAP. Calculations and determinations must be made following GAAP. Notwithstanding the foregoing, all financial covenant and other financial calculations (other than with respect to the Threshold Amount and Liquidity) shall be computed with respect to Borrower, on a consolidated basis. Capitalized terms not otherwise defined in this Agreement shall have the meanings set forth in Section 13. All other terms contained in this Agreement, unless otherwise indicated, shall have the meaning provided by the Code to the extent such terms are defined therein.

2 LOAN AND TERMS OF PAYMENT

2.1 Promise to Pay. Borrower hereby unconditionally promises to pay Bank the outstanding principal amount of all Credit Extensions and accrued and unpaid interest thereon as and when due in accordance with this Agreement.

2.2 Revolving Line.

(a) Availability. Subject to the terms and conditions of this Agreement and to deduction of Reserves, Bank shall make Advances not exceeding the Availability Amount. Amounts borrowed under the Revolving Line may be repaid and, prior to the Revolving Line Maturity Date, reborrowed, subject to the applicable terms and conditions precedent herein.

(b) Termination; Repayment. The Revolving Line terminates on the Revolving Line Maturity Date, when the principal amount of all Advances, the unpaid interest thereon, and all other Obligations relating to the Revolving Line shall be immediately due and payable.

2.3 Term Loan.

(a) Availability. Subject to the terms and conditions of this Agreement, on the Effective Date Borrower shall request and Bank shall make one (1) term loan advance in an aggregate original principal amount of Twenty-Five Million Dollars ($25,000,000.00) (the "**Term Loan Advance**"). Borrower shall be required to use the proceeds of the Term Loan Advance to pay in full all obligations owed to Visium. After repayment, the Term Loan Advance (or any portion thereof) may not be reborrowed.

(b) Interest Payments. With respect to the Term Loan Advance, commencing on the first Payment Date following the Funding Date of the Term Loan Advance and continuing on the Payment Date of each month thereafter, Borrower shall make monthly payments of interest, in arrears, on the principal amount of the Term Loan Advance at the rate set forth in Section 2.5(a)(ii).

(c) Repayment. Commencing on November 1, 2019 and continuing on each Payment Date thereafter, Borrower shall repay the Term Loan Advance in (i) thirty-six (36) equal monthly installments of principal, plus (ii) monthly payments of accrued interest as provided in Section 2.3(b), at the rate set forth in Section 2.5(a)(ii). All outstanding principal and accrued and unpaid interest under the Term Loan Advance, and all other outstanding Obligations with respect to the Term Loan Advance, are due and payable in full on the Term Loan Maturity Date.

(d) Permitted Prepayment. Borrower shall have the option to prepay all or any portion of the Term Loan Advance, provided Borrower (i) delivers written notice to Bank of its election to prepay the Term Loan Advance at least five (5) days prior to such prepayment (which notice may be conditioned upon the closing of a transaction) along with a notice of the portion of the principal amount being prepaid, and (ii) pays, on the date of such prepayment (A) the outstanding principal being prepaid plus accrued and unpaid interest with respect to the Term Loan Advance through the date of prepayment (which payment of interest shall be deemed to constitute interest for all purposes hereunder, and not a penalty or premium), (B) in the event that the principal balance of the Term Loan Advance is prepaid in full, the Prepayment Fee, (C) the Final Payment and (D) all other sums, if any, that shall have become due and payable with respect to the Term Loan Advance, including interest at the Default Rate with respect to any past due amounts. Any partial prepayments of principal with respect to the Term Loan Advance made under this Section 2.3(d) will be applied to each remaining installment payable on the principal balance of the Term Loan Advance in the order of maturity (for clarity, being first applied to the next installment payable, and then the next successive payment after that).

(e) Mandatory Prepayment Upon an Acceleration. If the Term Loan Advance is accelerated by Bank following the occurrence and during the continuance of an Event of Default, Borrower shall immediately pay to Bank an amount equal to the sum of (i) all outstanding principal plus accrued and unpaid interest with respect to the Term Loan Advance through the date of prepayment (which payment of interest shall be deemed to constitute interest for all purposes hereunder, and not a penalty or premium), (ii) the Prepayment Fee, (iii) the Final Payment and (iv) all other sums, if any, that shall have become due and payable with respect to the Term Loan Advance, including interest at the Default Rate with respect to any past due amounts.

2.4 Overadvances. If, at any time, the outstanding principal amount of any Advances exceeds the lesser of either the Revolving Line or the Borrowing Base, Borrower shall immediately pay to Bank in cash the amount of such excess (such excess, the "**Overadvance**"). Without limiting Borrower's obligation to repay Bank any Overadvance, Borrower agrees to pay Bank interest on the outstanding amount of any Overadvance, on demand, at a per annum rate equal to the rate that is otherwise applicable to Advances plus three percent (3.0%).

2.5 Payment of Interest on the Credit Extensions.

(a) Interest Rate.

(i) Advances. Subject to Section 2.5(b), the principal amount outstanding under the Revolving Line shall accrue interest at a floating per annum rate equal to the greater of (A) three and one-half of one percent (3.50%) above the Applicable Rate and (B) four and 70/100 hundredths of one percent (4.70%), which interest shall be payable monthly in accordance with Section 2.5(e) below.

(ii) Term Loan Advance. Subject to Section 2.5(b), the principal amount outstanding under the Term Loan Advance shall accrue interest at a floating per annum rate equal to the greater of (A) four and 20/100 hundredths of one percent (4.20%) above the Applicable Rate and (B) five and 43/100 hundredths of one percent (5.43%), which interest shall be payable monthly in accordance with Section 2.5(e) below.

(b) Default Rate. Immediately upon the occurrence and during the continuance of an Event of Default, Obligations shall bear interest at a rate per annum which is three percent (3.0%) above the rate that is otherwise applicable thereto (the "**Default Rate**"). Fees and expenses which are required to be paid by Borrower pursuant to the Loan Documents (including, without limitation, Bank Expenses) but are not paid when due shall bear interest until paid at a rate equal to the highest rate applicable to the Obligations. Payment or acceptance of the increased interest rate provided in this Section 2.5(b) is not a permitted alternative to timely payment and shall not constitute a waiver of any Event of Default or otherwise prejudice or limit any rights or remedies of Bank.

(c) Adjustment to Interest Rate. Changes to the interest rate of any Credit Extension based on changes to the Applicable Rate shall be effective on the effective date of any change to the Applicable Rate and to the extent of any such change.

(d) Payment; Interest Computation. Interest is payable monthly on the Payment Date of each month and shall be computed on the basis of a 360-day year for the actual number of days elapsed. In computing interest, (i) all payments received after 12:00 p.m. Pacific time on any day shall be deemed received at the opening of business on the next Business Day, and (ii) the date of the making of any Credit Extension shall be included and the date of payment shall be excluded; provided, however, that if any Credit Extension is repaid on the same day on which it is made, such day shall be included in computing interest on such Credit Extension.

2.6 Fees. Borrower shall pay to Bank:

(a) Revolving Line Commitment Fee. A fully earned, non-refundable commitment fee of Twenty-Five Thousand Dollars ($25,000.00), on the Effective Date;

(b) Prepayment Fee. The Prepayment Fee, when due hereunder;

(c) Final Payment. The Final Payment, when due hereunder;

(d) Termination Fee. Upon termination of this Agreement or the termination of the Revolving Line for any reason, in each case prior to the Revolving Line Maturity Date, in addition to the payment of any other amounts then-owing, a termination fee in an amount equal to one percent (1.0%) of the Revolving Line (the "**Termination Fee**"), provided that no termination fee shall be charged if both (i) the credit facility hereunder is replaced with a new facility from Bank (or with respect to which Bank is the administrative agent) and (ii) no Event of Default has occurred;

(e) Anniversary Fees. For each twelve (12) month anniversary of the Effective Date occurring prior to the Revolving Line Maturity Date, a fully earned, non-refundable anniversary fee (the "**Anniversary Fees**") equal to one-quarter of one percent (0.25%) of the Revolving Line shall be fully earned as of the Effective Date and is due and payable on the earlier to occur of (i) each such twelve (12) month anniversary of the Effective Date, (ii) the termination of this Agreement, or (iii) the occurrence of an Event of Default; and

(f) Bank Expenses. All documented Bank Expenses (including reasonable attorneys' fees and expenses for documentation and negotiation of this Agreement) incurred through and after the Effective Date, when due (or, if no stated due date, upon demand by Bank); provided that Borrower's good faith deposit of Fifty Thousand Dollars ($50,000.00) which has been received by Bank, shall be applied towards Bank Expenses as of the Effective Date.

Unless otherwise provided in this Agreement or in a separate writing by Bank, Borrower shall not be entitled to any credit, rebate, or repayment of any fees earned by Bank pursuant to this Agreement notwithstanding any termination of this Agreement or the suspension or termination of Bank's obligation to make loans and advances hereunder. Bank may deduct amounts owing by Borrower under the clauses of this Section 2.6 pursuant to the terms of Section 2.7(c). Bank shall provide Borrower written notice of deductions made from the Designated Deposit Account pursuant to the terms of the clauses of this Section 2.6.

2.7 Payments; Application of Payments; Debit of Accounts.

(a) All payments to be made by Borrower under any Loan Document shall be made in immediately available funds in Dollars, without setoff or counterclaim, before 12:00 p.m. Pacific time on the date when due. Payments of principal and/or interest received after 12:00 p.m. Pacific time are considered received at the opening of business on the next Business Day. When a payment is due on a day that is not a Business Day, the payment shall be due the next Business Day, and additional fees or interest, as applicable, shall continue to accrue until paid.

(b) Notwithstanding any provision herein to the contrary, all payments received or collected by Bank (including proceeds for the realization of Collateral) after the occurrence and during the continuance of an Event of Default or after any or all of the Obligations have been accelerated (so long as such acceleration has not been rescinded) or upon the occurrence of an additional termination event (as defined under the respective Secured Rate Contract) with Borrower as the affected party (unless otherwise waived) or upon the designation of an early termination date with respect to any Secured Rate Contract with Borrower as the defaulting or affected party, shall be applied as follows:

(i) First, to payment of costs and expenses, including Bank Expenses, of Bank payable or reimbursable by Borrower under the Loan Documents;

(ii) Second, to (X) the payment of all accrued unpaid interest on the Obligations and fees owed to Bank, and (Y) the payment of any ordinary course settlement payments (including Unpaid Amounts) then due and payable to any Secured Swap Provider under its Secured Rate Contracts, after such ordinary course settlement payments have been reduced by the amount of any cash collateral that has been made available to such Secured Swap Provider to secure the obligations under such Secured Rate Contract;

(iii) Third, to (i) the payment of principal of the Loan Obligations including, without limitation any reimbursement obligations in respect of Letters of Credit that are then due and payable; (ii) the payment of all termination payments (but excluding Unpaid Amounts paid under clause "second" above) under the Secured Rate Contracts then due and payable to any Secured Swap Provider, after such termination payments have been reduced by the amount of any cash collateral that has been made available to such Secured Swap Provider to secure the obligations under such Secured Rate Contract; and (iii) the cash collateralization of one hundred five percent (105.0%) of the Dollar Equivalent of the face amount of any unmatured Letters of Credit to the extent not then due and payable; and (iv) the cash collateralization of any other unmatured Secured Swap Obligations in an amount necessary to secure the obligations of Borrower to any Secured Swap Provider under its Secured Rate Contracts;

(iv) Fourth, to payment of any other amounts owing constituting Obligations; and

(v) Fifth, any remainder shall be for the account of and paid to whomever may be lawfully entitled thereto.

In carrying out the foregoing, (x) amounts received shall be applied in the numerical order provided above until exhausted prior to the application to the next succeeding category and (y) Bank, each Secured Swap Provider and each other Persons entitled to payment shall receive an amount equal to its pro rata share of amounts available to be applied pursuant to clauses second, third and fourth above. Borrower shall have no right to specify the order or the accounts to which Bank shall allocate or apply any payments required to be made by Borrower to Bank or otherwise received by Bank under this Agreement when any such allocation or application is not specified elsewhere in this Agreement.

(c) Bank, for itself and as agent for the Secured Swap Providers, may debit any of Borrower's deposit accounts maintained with Bank, including the Designated Deposit Account, for principal and interest payments or any other amounts Borrower owes Bank or any Secured Swap Provider when due. These debits shall not constitute a set-off. When no Event of Default has occurred and is continuing, Bank or any Secured Swap Provider shall promptly notify Borrower when it debits Borrower's accounts for any payments other than payments on account of principal or interest.

2.8 Withholding. Payments received by Bank from Borrower under this Agreement will be made free and clear of and without deduction for any and all Taxes, except for Excluded Taxes. Specifically, however, if at any time any Governmental Authority, applicable law, regulation or international agreement requires Borrower to make any withholding or deduction of any Tax from any such payment or other sum payable hereunder to Bank, if such Tax is an Indemnified Tax, Borrower hereby covenants and agrees that the amount due from Borrower with respect to such payment or other sum payable hereunder will be increased to the extent necessary to ensure that,

after the making of such required withholding or deduction, Bank receives a net sum equal to the sum which it would have received had no withholding or deduction been required, and Borrower shall pay the full amount withheld or deducted to the relevant Governmental Authority. Borrower will, upon request, furnish Bank with proof reasonably satisfactory to Bank indicating that Borrower has made such withholding payment; provided, however, that Borrower need not make any withholding payment if the amount or validity of such withholding payment is contested in good faith by appropriate and timely proceedings and as to which payment in full is bonded or reserved against by Borrower. The agreements and obligations of Borrower contained in this Section 2.8 shall survive the termination of this Agreement.

3 CONDITIONS OF LOANS

3.1 Conditions Precedent to Initial Credit Extension. Bank's obligation to make the initial Credit Extension is subject to the condition precedent that Bank shall have received, in form and substance satisfactory to Bank, such documents, and completion of such other matters, as Bank may reasonably deem necessary or appropriate, including, without limitation:

(a) duly executed original signatures to the Loan Documents;

(b) duly executed original signatures to the Control Agreement with Wells Fargo Bank with respect to Borrower's account maintained with Wells Fargo Bank ending 489 (last three digits) (the "**Wells Fargo Account**");

(c) the Operating Documents and long-form good standing certificates of Borrower certified by the Secretary of State of Delaware and each jurisdiction in which Borrower is qualified to conduct business, each as of a date no earlier than thirty (30) days prior to the Effective Date;

(d) a secretary's certificate of Borrower with respect to such Borrower's Operating Documents, incumbency, specimen signatures and resolutions authorizing the execution and delivery of this Agreement and the other Loan Documents to which it is a party;

(e) duly executed original signatures to the completed Borrowing Resolutions for Borrower;

(f) duly executed original signature to a payoff letter from Visium;

(g) evidence that (i) the Liens securing Indebtedness owed by Borrower to Visium will be terminated and (ii) the documents and/or filings evidencing the perfection of such Liens, including without limitation any financing statements and/or control agreements, have or will, concurrently with the initial Credit Extension, be terminated;

(h) certified copies, dated as of a recent date, of financing statement searches, as Bank may reasonably request, accompanied by written evidence (including any UCC termination statements) that the Liens indicated in any such financing statements either constitute Permitted Liens or have been or, in connection with the initial Credit Extension, will be terminated or released;

(i) the Perfection Certificate of Borrower, together with the duly executed original signature thereto;

(j) a legal opinion (authority and enforceability) of Borrower's counsel dated as of the Effective Date together with the duly executed original signature thereto;

(k) evidence reasonably satisfactory to Bank that the insurance policies and endorsements required by Section 6.7 hereof are in full force and effect, together with appropriate evidence showing lender loss payable and/or additional insured clauses or endorsements in favor of Bank;

(l) with respect to the initial Advance, the completion of the Initial Audit;

(m) with respect to the initial Advance, a completed Borrowing Base Report (and any schedules related thereto and including any other information requested by Bank with respect to Borrower's Accounts); and

(n) payment of the fees and Bank Expenses then due as specified in Section 2.6 hereof.

3.2 Conditions Precedent to all Credit Extensions. Bank's obligations to make each Credit Extension, including the initial Credit Extension, is subject to the following conditions precedent:

(a) timely receipt of (i) the Credit Extension request and any materials and documents required by Section 3.4 and (ii) with respect to the request for the Term Loan Advance, an executed Payment/Advance Form and any materials and documents required by Section 3.4;

(b) the representations and warranties in this Agreement shall be true, accurate, and complete in all material respects on the date of the proposed Credit Extension and/or of the Payment/Advance Form, as applicable, and on the Funding Date of each Credit Extension; provided, however, that such materiality qualifier shall not be applicable to any representations and warranties that already are qualified or modified by materiality in the text thereof; and provided, further that those representations and warranties expressly referring to a specific date or time period shall be true, accurate and complete in all material respects as of such date or with respect to such time period, and no Event of Default shall have occurred and be continuing or result from the Credit Extension. Each Credit Extension is Borrower's representation and warranty on that date that the representations and warranties in this Agreement remain true, accurate, and complete in all material respects; provided, however, that such materiality qualifier shall not be applicable to any representations and warranties that already are qualified or modified by materiality in the text thereof; and provided, further that those representations and warranties expressly referring to a specific date or time period shall be true, accurate and complete in all material respects as of such date or with respect to such time period; and

(c) Bank determines to its reasonable satisfaction that there has not been any material adverse change in the general affairs, management, results of operation, financial condition or the prospect of repayment of the Obligations.

3.3 Covenant to Deliver. Borrower agrees to deliver to Bank each item required to be delivered to Bank under this Agreement as a condition precedent to any Credit Extension. Borrower expressly agrees that a Credit Extension made prior to the receipt by Bank of any such item shall not constitute a waiver by Bank of Borrower's obligation to deliver such item, and the making of any Credit Extension in the absence of a required item shall be in Bank's sole discretion.

3.4 Procedures for Borrowing.

(a) Advances. Subject to the prior satisfaction of all other applicable conditions to the making of an Advance set forth in this Agreement, to obtain an Advance, Borrower (via an individual duly authorized by an Administrator) shall notify Bank (which notice shall be irrevocable) by electronic mail by 12:00 p.m. Pacific time on the Funding Date of the Advance. Such notice shall be made by Borrower through Bank's online banking program, provided, however, if Borrower is not utilizing Bank's online banking program, then such notice shall be in a written format reasonably acceptable to Bank that is executed by an Authorized Signer. Bank shall have received satisfactory evidence that the Board has approved that such Authorized Signer may provide such notices and request Advances. In connection with any such notification, Borrower must promptly deliver to Bank by electronic mail or through Bank's online banking program such reports and information, including without limitation, Borrowing Base Reports, sales journals, cash receipts journals, accounts receivable aging reports, as Bank may reasonably request in its sole discretion. Bank shall credit proceeds of an Advance to the Designated Deposit Account. Bank may make Advances under this Agreement based on instructions from an Authorized Signer or without instructions if the Advances are necessary to meet Obligations which have become due.

(b) Term Loan Advance. Subject to the prior satisfaction of all other applicable conditions to the making of the Term Loan Advance set forth in this Agreement, to obtain the Term Loan Advance, Borrower (via an individual duly authorized by an Administrator) shall notify Bank (which notice shall be irrevocable) by electronic mail by 12:00 noon Pacific time on the Funding Date of the Term Loan Advance. Such notice shall be made by Borrower through Bank's online banking program, provided, however, if Borrower is not utilizing Bank's online banking program, then such notice shall be in a written format acceptable to Bank that is executed by an Authorized Signer. Bank shall have received satisfactory evidence that the Board has approved that such Authorized Signer may provide such notices and request the Term Loan Advance. In connection with such notification, Borrower must promptly deliver to Bank by electronic mail or through Bank's online banking program a completed Payment/Advance Form executed by an Authorized Signer together with such other reports and information, as Bank may request in its sole discretion. Bank shall credit proceeds of any Term Loan Advance to the Designated Deposit Account. Bank may make the Term Loan Advance under this Agreement based on instructions from an Authorized Signer or without instructions if the Term Loan Advance is necessary to meet Obligations which have become due.

4 CREATION OF SECURITY INTEREST

4.1 Grant of Security Interest. Borrower hereby grants Bank, for itself and as agent for each Secured Swap Provider, to secure the payment and performance in full of all of the Obligations, a continuing security interest in, and pledges to Bank, for itself and as agent for each Secured Swap Provider, the Collateral, wherever located, whether now owned or hereafter acquired or arising, and all proceeds and products thereof.

Borrower acknowledges that it previously has entered, and/or may in the future enter, into Bank Services Agreements with Bank. Regardless of the terms of any Bank Services Agreement, Borrower agrees that any amounts Borrower owes Bank thereunder shall be deemed to be Obligations hereunder and that it is the intent of Borrower and Bank to have all such Obligations secured by the first priority perfected security interest in the Collateral granted herein (subject only to Permitted Liens that are permitted pursuant to the terms of this Agreement to have superior priority to Bank's Lien in this Agreement).

If this Agreement is terminated, Bank's Lien in the Collateral shall continue until (i) the Obligations are repaid in full in cash, and (ii) any Contingent Obligations (other than inchoate indemnity obligations and Secured Rate Contracts) are secured with cash collateral in an amount and on terms reasonably satisfactory to Bank and to each Secured Swap Provider. Upon payment in full in cash of the Obligations (other than inchoate indemnity obligations) and at such time as Bank's obligation to make Credit Extensions has terminated, Bank shall, at the sole cost and expense of Borrower, release its Liens in the Collateral and all rights therein shall revert to Borrower. In the event (x) all Obligations (other than inchoate indemnity obligations), except for Bank Services, are satisfied in full, and (y) this Agreement is terminated, Bank shall terminate the security interest granted herein upon Borrower providing cash collateral acceptable to Bank in its reasonable good faith business judgment for Bank Services, if any. Bank shall use commercially reasonable efforts to inform Borrower within a commercially reasonable period of time what constitutes acceptable cash collateral with respect to each Bank Services Agreement in effect. In the event such Bank Services consist of outstanding Letters of Credit, Borrower shall provide to Bank cash collateral in an amount equal to (x) if such Letters of Credit are denominated in Dollars, then at least one hundred percent (100.0%); and (y) if such Letters of Credit are denominated in a Foreign Currency, then at least one hundred five percent (105.0%), of the Dollar Equivalent of the face amount of all such Letters of Credit plus all interest, fees, and costs due or to become due in connection therewith (as estimated by Bank in its business judgment), to secure all of the Obligations relating to such Letters of Credit.

4.2 Priority of Security Interest. Borrower represents, warrants, and covenants that the security interest granted herein is and shall at all times continue to be a first priority perfected security interest in the Collateral (subject only to Permitted Liens that are permitted pursuant to the terms of this Agreement to have superior priority to Bank's Lien under this Agreement). If Borrower shall acquire a commercial tort claim, Borrower shall promptly notify Bank in a writing signed by Borrower of the general details thereof and grant to Bank, for itself and as agent for each Secured Swap Provider, in such writing a security interest therein and in the proceeds

thereof, all upon the terms of this Agreement, with such writing to be in form and substance reasonably satisfactory to Bank.

4.3 Authorization to File Financing Statements. Borrower hereby authorizes Bank, for itself and as agent for each Secured Swap Provider, to file financing statements, without notice to Borrower, with all appropriate jurisdictions to perfect or protect Bank's interest or rights hereunder, including a notice that any disposition of the Collateral, by either Borrower or any other Person, shall be deemed to violate the rights of Bank under the Code. Such financing statements may indicate the Collateral as "all assets of the Debtor" or words of similar effect, or as being of an equal or lesser scope, or with greater detail, all in Bank's discretion.

5 REPRESENTATIONS AND WARRANTIES

Borrower represents and warrants as follows:

5.1 Due Organization, Authorization; Power and Authority. Borrower is duly existing and in good standing as a Registered Organization in its jurisdiction of formation and is qualified and licensed to do business and is in good standing in any jurisdiction in which the conduct of its business or its ownership of property requires that it be qualified except where the failure to do so could not reasonably be expected to have a material adverse effect on Borrower's business. In connection with this Agreement, Borrower has delivered to Bank a completed certificate signed by Borrower, entitled "Perfection Certificate" (the "**Perfection Certificate**"). Borrower represents and warrants to Bank that (a) Borrower's exact legal name is that indicated on the Perfection Certificate and on the signature page hereof; (b) Borrower is an organization of the type and is organized in the jurisdiction set forth in the Perfection Certificate; (c) the Perfection Certificate accurately sets forth Borrower's organizational identification number or accurately states that Borrower has none; (d) the Perfection Certificate accurately sets forth Borrower's place of business, or, if more than one, its chief executive office as well as Borrower's mailing address (if different than its chief executive office); (e) Borrower (and each of its predecessors) has not, in the past five (5) years, changed its jurisdiction of formation, organizational structure or type, or any organizational number assigned by its jurisdiction; and (f) all other information set forth on the Perfection Certificate pertaining to Borrower and each of its Subsidiaries is accurate and complete in all material respects (it being understood and agreed that Borrower may from time to time update certain information in the Perfection Certificate after the Effective Date (whether through the delivery of a new Perfection Certificate, written notice to Bank of updates thereto, or delivery of a Compliance Certificate) to the extent permitted by one or more specific provisions in this Agreement). If Borrower is not now a Registered Organization but later becomes one, Borrower shall promptly notify Bank of such occurrence and provide Bank with Borrower's organizational identification number.

The execution, delivery and performance by Borrower of the Loan Documents to which it is a party have been duly authorized, and do not (i) conflict with any of Borrower's organizational documents, (ii) contravene, conflict with, constitute a default under or violate any material Requirement of Law, (iii) contravene, conflict or violate any applicable order, writ, judgment, injunction, decree, determination or award of any Governmental Authority by which Borrower or any of its Subsidiaries or any of their property or assets may be bound or affected, (iv) require any action by, filing, registration, or qualification with, or Governmental Approval from, any Governmental Authority (except such Governmental Approvals which have already been obtained and are in full force and effect), or (v) conflict with, contravene, constitute a default or breach under, or result in or permit the termination or acceleration of, any material agreement by which Borrower is bound. Borrower is not in default under any agreement to which it is a party or by which it is bound in which the default would reasonably be expected to have a material adverse effect on Borrower's business.

5.2 Collateral. Borrower has good title to, rights in, and the power to transfer (subject to customary restrictions on assignment of contracts set forth in such contracts, and restrictions on the transfer of assets set forth in agreements for the sale of such assets) each item of the Collateral upon which it purports to grant a Lien hereunder, free and clear of any and all Liens except Permitted Liens. Borrower has no Collateral Accounts at or with any bank or financial institution other than Bank or Bank's Affiliates except for the Collateral Accounts described in the Perfection Certificate delivered to Bank in connection herewith and which Borrower has taken such

actions as are necessary to give Bank a perfected security interest therein, pursuant to the terms of Section 6.8(b). The Accounts are bona fide, existing obligations of the Account Debtors.

The Collateral is not in the possession of any third party bailee (such as a warehouse) except as otherwise provided in the Perfection Certificate or as permitted pursuant to Section 7.2. None of the components of the Collateral shall be maintained at locations other than as provided in the Perfection Certificate or as permitted pursuant to Section 7.2.

All Inventory is in all material respects of good and marketable quality, free from material defects.

Borrower is the sole owner of the Intellectual Property which it owns or purports to own except for (a) non-exclusive licenses granted to its customers in the ordinary course of business, (b) over-the-counter software that is commercially available to the public, and (c) material Intellectual Property licensed to Borrower and noted on the Perfection Certificate or licensed after the Effective Date. Each Patent which it owns or purports to own and which is material to Borrower's business is, to Borrower's knowledge, valid and enforceable, and no part of the Intellectual Property which Borrower owns or purports to own and which is material to Borrower's business has been judged invalid or unenforceable, in whole or in part. To the best of Borrower's knowledge, no claim has been made that any part of the Intellectual Property violates the rights of any third party except to the extent such claim would not reasonably be expected to have a material adverse effect on Borrower's business.

Except as noted on the Perfection Certificate or as notified to Bank when and as required by Section 6.10(b), Borrower is not a party to, nor is it bound by, any Restricted License.

5.3 Accounts Receivable.

(a) For each Account with respect to which Advances are requested, on the date each Advance is requested and made, such Account shall be an Eligible Account.

(b) All statements made and all unpaid balances appearing in all invoices, instruments and other documents evidencing the Eligible Accounts are and shall be true and correct and all such invoices, instruments and other documents, and all of Borrower's Books are genuine and in all respects what they purport to be. All sales and other transactions underlying or giving rise to each Eligible Account shall comply in all material respects with all applicable laws and governmental rules and regulations. Borrower has no knowledge of any actual or imminent Insolvency Proceeding of any Eligible Account Payor whose accounts are Eligible Accounts in any Borrowing Base Report. To the best of Borrower's knowledge, all signatures and endorsements on all documents, instruments, and agreements relating to all Eligible Accounts are genuine, and all such documents, instruments and agreements are legally enforceable in accordance with their terms.

5.4 Litigation. There are no actions or proceedings pending or, to the knowledge of any Responsible Officer, threatened in writing by or against Borrower or any of its Subsidiaries involving more than, individually or in the aggregate, One Million Dollars ($1,000,000.00), other than litigation for which Borrower has given written notice to Bank, which would not reasonably be expected to result in damages payable by Borrower, individually or in the aggregate in excess of One Million Dollars ($1,000,000.00).

5.5 Financial Statements; Financial Condition. All consolidated financial statements for Borrower and any of its Subsidiaries delivered to Bank fairly present in all material respects Borrower's consolidated financial condition and Borrower's consolidated results of operations. There has not been any material deterioration in Borrower's consolidated financial condition since the date of the most recent financial statements submitted to Bank.

5.6 Solvency. The fair salable value of Borrower's consolidated assets (including goodwill minus disposition costs) exceeds the fair value of Borrower's liabilities; Borrower is not left with unreasonably small capital after the transactions in this Agreement; and Borrower is able to pay its debts (including trade debts) as they mature.

5.7 Regulatory Compliance. Borrower is not an "investment company" or a company "controlled" by an "investment company" under the Investment Company Act of 1940, as amended. Borrower is not engaged as one of its important activities in extending credit for margin stock (under Regulations X, T and U of the Federal Reserve Board of Governors). Borrower (a) has complied in all material respects with all Requirements of Law, and (b) has not violated any Requirements of Law the violation of which would reasonably be expected to have a material adverse effect on its business. None of Borrower's or any of its Subsidiaries' properties or assets has been used by Borrower or any Subsidiary or, to the best of Borrower's knowledge, by previous Persons, in disposing, producing, storing, treating, or transporting any hazardous substance other than legally. Borrower and each of its Subsidiaries have obtained all consents, approvals and authorizations of, made all declarations or filings with, and given all notices to, all Governmental Authorities that are necessary to continue their respective businesses as currently conducted, except where failure to obtain any such consent, approval, or authorization, make such declaration or filing or provide such notice would not reasonably be expected to have a material adverse effect on Borrower's business or operations.

5.8 Subsidiaries; Investments. Borrower does not own any stock, partnership, or other ownership interest or other equity securities except for Permitted Investments.

5.9 Tax Returns and Payments; Pension Contributions. Borrower has timely filed all required tax returns and reports, and Borrower has timely paid all foreign, federal, state and local taxes, assessments, deposits and contributions owed by Borrower except (a) to the extent such taxes are being contested in good faith by appropriate proceedings promptly instituted and diligently conducted, so long as such reserve or other appropriate provision, if any, as shall be required in conformity with GAAP shall have been made therefor, or (b) if such taxes, assessments, deposits and contributions do not, individually or in the aggregate, exceed Two Hundred Fifty Thousand Dollars ($250,000.00).

To the extent Borrower defers payment of any contested taxes, Borrower shall (i) notify Bank in writing of the commencement of, and any material development in, the proceedings, and (ii) post bonds or take any other steps required to prevent the Governmental Authority levying such contested taxes from obtaining a Lien upon any of the Collateral that is other than a "Permitted Lien." Borrower is unaware of any claims or adjustments proposed for any of Borrower's prior tax years which could reasonably be expected to result in additional taxes becoming due and payable by Borrower in excess of One Hundred Thousand Dollars ($100,000.00), other than those being contested in good faith by appropriate proceedings promptly instituted and diligently conducted, so long as such reserve or other appropriate provision, if any, as shall be required in conformity with GAAP shall have been made therefor. Borrower has paid all amounts necessary to fund all present pension, profit sharing and deferred compensation plans in accordance with their terms, and Borrower has not withdrawn from participation in, and has not permitted partial or complete termination of, or permitted the occurrence of any other event with respect to, any such plan which could reasonably be expected to result in any liability of Borrower, including any liability to the Pension Benefit Guaranty Corporation or its successors or any other governmental agency.

5.10 Use of Proceeds. Borrower shall use the proceeds of the Credit Extensions solely as working capital and to fund its general business requirements and not for personal, family, household or agricultural purposes, and with respect to the Term Loan Advance, to pay in full all obligations owed to Visium.

5.11 Full Disclosure. No written representation, warranty or other written statement of Borrower in any certificate or written statement given to Bank, as of the date such representation, warranty, or other statement was made, taken together with all such written certificates and written statements given to Bank, contains any untrue statement of a material fact or omits to state a material fact necessary to make the statements contained in the certificates or statements not misleading (it being recognized by Bank that the projections and forecasts provided by Borrower in good faith and based upon reasonable assumptions are not viewed as facts and that actual results during the period or periods covered by such projections and forecasts may differ from the projected or forecasted results).

5.12 Definition of "Knowledge." For purposes of the Loan Documents, whenever a representation or warranty is made to Borrower's knowledge or awareness, to the "best of" Borrower's knowledge, or with a similar

qualification, knowledge or awareness means the actual knowledge, after reasonable investigation, of any Responsible Officer.

5.13 Designation of Indebtedness under this Agreement as Senior Indebtedness. All principal of, interest (including all interest accruing after the commencement of any bankruptcy or similar proceeding, whether or not a claim for post-petition interest is allowable as a claim in any such proceeding), and all fees, costs, expenses and other amounts accrued or due under this Agreement and under the Secured Rate Contracts shall constitute "Designated Senior Indebtedness" under the terms of any Subordinated Debt documents.

6 AFFIRMATIVE COVENANTS

Until such time as this Agreement is terminated, Borrower shall do all of the following:

6.1 Government Compliance.

(a) Maintain its and all its Subsidiaries' legal existence and good standing in their respective jurisdictions of formation and maintain qualification in each jurisdiction in which the failure to so qualify would reasonably be expected to have a material adverse effect on Borrower's business or operations, provided that Borrower, in its sole discretion, may choose to shut down or dissolve any Subsidiary; provided that the assets and property of such Subsidiary shall be transferred to a Borrower or a Secured Guarantor. Borrower shall comply, and have each Subsidiary comply, in all material respects, with all laws, ordinances and regulations to which it is subject except where the failure to so comply would not be reasonably expected to have a material adverse effect on Borrower's business or operations.

(b) Obtain all of the Governmental Approvals necessary for the performance by Borrower of its obligations under the Loan Documents to which it is a party and the grant of a security interest to Bank, for itself and as agent for each Secured Swap Provider, in all of its property. Borrower shall promptly provide copies of any such obtained Governmental Approvals to Bank.

6.2 Financial Statements, Reports, Certificates. Provide Bank with the following:

(a) a Borrowing Base Report (and any schedules related thereto and including any other information requested by Bank with respect to Borrower's Accounts) (i) with each request for an Advance and (ii) within forty-five (45) days after the end of each month, provided however, the reporting in (ii) shall not be required if there were no Advances outstanding during the applicable period through and including the date that the reporting would otherwise be required to be delivered; provided further, if such report is not being delivered for a quarter-end (in which case such report shall be prepared in accordance with GAAP), such report shall not be required to be prepared in accordance with GAAP;

(b) within forty-five (45) days after the end of each month, (i) monthly accounts receivable agings, aged by invoice date, (ii) monthly accounts payable agings, aged by invoice date, and outstanding or held check registers, if any, and (iii) monthly reconciliations of accounts receivable agings (aged by invoice date), transaction reports, and general ledger, each in a form acceptable to Bank (it being acknowledged that any form which complies with SEC regulations shall be deemed to be in a form acceptable to Bank), provided however, the foregoing shall not be required if there were no Advances outstanding during the applicable period through and including the date that the reporting would otherwise be required to be delivered; provided further, if such report is not being delivered for a quarter-end (in which case such report shall be prepared in accordance with GAAP), such report shall not be required to be prepared in accordance with GAAP;

(c) within forty-five (45) days after the last day of each fiscal quarter (provided, however, that Borrower shall have ninety (90) days after the last day of the final quarter of Borrower's fiscal year), a duly completed Compliance Certificate signed by a Responsible Officer, certifying that as of the end of such month, Borrower was in full compliance with all of the terms and conditions of this Agreement, and setting forth calculations showing compliance with the financial covenants set forth in this Agreement and such other information

as Bank may reasonably request, including, without limitation, a statement that at the end of such month there were no held checks;

(d) as soon as available, and in any event within forty-five (45) days after the end of each fiscal quarter of Borrower (other than the final quarter of Borrower's fiscal year), company prepared consolidated balance sheet and income statement covering Borrower's consolidated operations for such quarter certified by a Responsible Officer and in a form acceptable to Bank (it being acknowledged that any form which complies with SEC regulations shall be deemed to be in a form acceptable to Bank);

(e) as soon as available, and in any event within ninety (90) days after the final quarter of Borrower's fiscal year, company prepared consolidated balance sheet and income statement covering Borrower's consolidated operations for such quarter certified by a Responsible Officer and in a form acceptable to Bank (it being acknowledged that any form which complies with SEC regulations shall be deemed to be in a form acceptable to Bank);

(f) within ninety (90) days after the end of each fiscal year of Borrower, and contemporaneously with any updates or amendments thereto, annual financial projections (on a quarterly basis) as approved by the Board;

(g) within five (5) days of filing, copies of all periodic and other reports, proxy statements and other materials filed by Borrower and/or any Guarantor with the SEC, any Governmental Authority succeeding to any or all of the functions of the SEC or with any national securities exchange, or distributed to its shareholders, as the case may be. Documents required to be delivered pursuant to the terms of clauses (d), (e), (g) and (h) of this Section 6.2 (to the extent any such documents are included in materials otherwise filed with the SEC) may be delivered electronically and if so delivered, shall be deemed to have been delivered on the date on which Borrower posts such documents, or provides a link thereto, on Borrower's website on the internet at Borrower's website address; provided, however, Borrower shall promptly notify Bank in writing (which may be by electronic mail) of the posting of any such documents;

(h) within ten (10) days of delivery, copies of all statements, reports and notices made available to Borrower's security holders or to any holders of Subordinated Debt;

(i) prompt report of any legal actions pending or threatened in writing against Borrower or any of its Subsidiaries that could reasonably be expected to result in a judgment against Borrower or any of its Subsidiaries of, individually or in the aggregate, Five Hundred Thousand Dollars ($500,000.00) or more; and

(j) promptly, from time to time, such other information regarding Borrower or compliance with the terms of any Loan Documents as reasonably requested by Bank.

6.3 Accounts Receivable.

(a) Schedules and Documents Relating to Accounts. Borrower shall deliver to Bank transaction reports and schedules of collections, as provided in Section 6.2, on Bank's standard forms; provided, however, that Borrower's failure to execute and deliver the same shall not affect or limit Bank's Lien and other rights in all of Borrower's Accounts, nor shall Bank's failure to advance or lend against a specific Account affect or limit Bank's Lien and other rights therein. If requested by Bank, Borrower shall furnish Bank with copies (or, at Bank's request, originals) of all contracts, orders, invoices, and other similar documents, and all shipping instructions, delivery receipts, bills of lading, and other evidence of delivery, for any goods the sale or disposition of which gave rise to such Accounts. In addition, Borrower shall deliver to Bank, on its request, the originals of all instruments, chattel paper, security agreements, guarantees and other documents and property evidencing or securing any Accounts, in the same form as received, with all necessary indorsements, and copies of all credit memos.

(b) Disputes. Borrower shall promptly notify Bank of all disputes or claims relating to Accounts in excess of Five Hundred Thousand Dollars ($500,000.00) in the aggregate existing at any time.

Borrower may forgive (completely or partially), compromise, or settle any Account for less than payment in full, or agree to do any of the foregoing so long as (i) Borrower does so in good faith, in a commercially reasonable manner, in the ordinary course of business, in arm's-length transactions, and reports the same to Bank in the regular reports provided to Bank; (ii) no Event of Default has occurred and is continuing; and (iii) after taking into account all such discounts, settlements and forgiveness, the total outstanding Advances will not exceed the lesser of the Revolving Line or the Borrowing Base. Notwithstanding the foregoing, this Section 6.3(b) shall only be applicable to the extent there are Advances outstanding, provided however, in the event that Borrower requests an Advance, Borrower shall inform Bank of any disputes or claims which existed during such time while no Advances were outstanding and would have otherwise been required to be disclosed hereunder.

(c) Collection of Accounts. Borrower shall direct Account Debtors to deliver or transmit all proceeds of Accounts into the Wells Fargo Account, provided further that on a weekly basis, all amounts in the Wells Fargo Account shall be directed into a lockbox account, or such other "blocked account" as specified by Bank (either such account, the "**Cash Collateral Account**"). Whether or not an Event of Default has occurred and is continuing, Borrower shall immediately deliver all payments on and proceeds of Accounts to the Wells Fargo Account or Cash Collateral Account. Subject to Bank's right to maintain a reserve pursuant to Section 6.3(d), all amounts received in the Cash Collateral Account shall be (i) when a Streamline Period is not in effect, applied to immediately reduce the Obligations under the Revolving Line (unless Bank, in its sole discretion, at times when an Event of Default exists, elects not to so apply such amounts), or (ii) when a Streamline Period is in effect or if there are no Obligations (other than Obligations with respect to the Term Loan Advance) outstanding, transferred on a daily basis to Borrower's operating account with Bank. Borrower hereby authorizes Bank to transfer to the Cash Collateral Account any amounts that Bank reasonably determines are proceeds of the Accounts (provided that Bank is under no obligation to do so and this allowance shall in no event relieve Borrower of its obligations hereunder).

(d) Reserves. Notwithstanding any terms in this Agreement to the contrary, at times when an Event of Default exists, Bank may hold any proceeds of the Accounts and any amounts in the Cash Collateral Account that are not applied to the Obligations pursuant to Section 6.3(c) above (including amounts otherwise required to be transferred to Borrower's operating account with Bank when a Streamline Period is in effect) as a reserve to be applied to any Obligations regardless of whether such Obligations are then due and payable.

(e) Returns. Provided no Event of Default has occurred and is continuing, if any Account Debtor returns any Inventory to Borrower, Borrower shall promptly (i) determine the reason for such return, (ii) issue a credit memorandum to the Account Debtor in the appropriate amount, and (iii) provide a copy of such credit memorandum to Bank, upon request from Bank. In the event any attempted return occurs after the occurrence and during the continuance of any Event of Default, Borrower shall hold the returned Inventory in trust for Bank, and immediately notify Bank of the return of the Inventory.

(f) Verifications; Confirmations; Credit Quality; Notifications. Bank may, from time to time, (i) verify and confirm directly with the respective Account Debtors the validity, amount and other matters relating to the Accounts, either in the name of Borrower or Bank or such other name as Bank may choose, and notify any Account Debtor of Bank's security interest in such Account and/or (ii) conduct a credit check of any Account Debtor to approve any such Account Debtor's credit.

(g) No Liability. Bank shall not be responsible or liable for any shortage or discrepancy in, damage to, or loss or destruction of, any goods, the sale or other disposition of which gives rise to an Account, or for any error, act, omission, or delay of any kind occurring in the settlement, failure to settle, collection or failure to collect any Account, or for settling any Account in good faith for less than the full amount thereof, nor shall Bank be deemed to be responsible for any of Borrower's obligations under any contract or agreement giving rise to an Account. Nothing herein shall, however, relieve Bank from liability for its own gross negligence or willful misconduct.

6.4 Remittance of Proceeds. Except as otherwise provided in Section 6.3(c), deliver, in kind, all proceeds arising from the disposition of any Collateral to Bank in the original form in which received by Borrower not later than the following Business Day after receipt by Borrower, to be applied to the Obligations (a) prior to an

Event of Default, pursuant to the terms of Section 6.3(c) hereof, and (b) after the occurrence and during the continuance of an Event of Default, pursuant to the terms of Section 9.4 hereof; provided that, if no Event of Default has occurred and is continuing, Borrower shall not be obligated to remit to Bank the proceeds of the sale of surplus, worn out, obsolete or fully depreciated Equipment disposed of by Borrower in good faith in an arm's length transaction in the ordinary course of business for an aggregate purchase price of Five Hundred Thousand Dollars ($500,000.00) or less (for all such transactions in any fiscal year). Borrower agrees that it will hold such proceeds in the Cash Collateral Account and in an express trust for Bank. Nothing in this Section 6.4 limits the restrictions on disposition of Collateral set forth elsewhere in this Agreement.

6.5 Taxes; Pensions. Timely file, and require each of its Subsidiaries to timely file, all required tax returns and reports and timely pay, and require each of its Subsidiaries to timely pay, all foreign, federal, state and local taxes, assessments, deposits and contributions owed by Borrower and each of its Subsidiaries, except for deferred payment of any taxes contested pursuant to the terms of Section 5.9 hereof and taxes with respect to which the amount does not exceed the amount set forth in Section 5.9 hereof, and shall deliver to Bank, on demand, appropriate certificates attesting to such payments, and pay all amounts necessary to fund all present pension, profit sharing and deferred compensation plans in accordance with their terms.

6.6 Access to Collateral; Books and Records. At reasonable times, on five (5) Business Days' notice (provided no notice is required if an Event of Default has occurred and is continuing), Bank, or its agents, shall have the right to inspect the Collateral and the right to audit and copy Borrower's Books. Such inspections and audits shall be conducted as frequently as Bank determines in its sole discretion that conditions warrant. The foregoing inspections and audits shall be conducted at Borrower's expense, provided that, Borrower shall not be required to pay for more than two (2) such inspections or audits completed while no Event of Default exists every twelve (12) months. For inspections and audits that are conducted at Borrower's expense, the charge therefor shall be One Thousand Dollars ($1,000.00) per person per day (or such higher amount as shall represent Bank's then-current standard charge for the same), plus reasonable out-of-pocket expenses. In the event Borrower and Bank schedule an audit more than ten (10) days in advance, and Borrower cancels or seeks to or reschedules the audit with less than ten (10) days written notice to Bank, then (without limiting any of Bank's rights or remedies) Borrower shall pay Bank a fee of One Thousand Dollars ($1,000.00) plus any out-of-pocket expenses incurred by Bank to compensate Bank for the anticipated costs and expenses of the cancellation or rescheduling. Borrower acknowledges that the first such audit will occur within thirty (30) days of the Effective Date.

6.7 Insurance.

(a) Keep its business and the Collateral insured for risks and in amounts standard for companies in Borrower's industry and location and as Bank may reasonably request. Insurance policies shall be in a form, with financially sound and reputable insurance companies that are not Affiliates of Borrower, and in amounts that are reasonably satisfactory to Bank. All property policies shall have a lender's loss payable endorsement showing Bank as the sole lender loss payee. All liability policies shall show, or have endorsements showing, Bank as an additional insured. Bank shall be named as lender loss payee and/or additional insured with respect to any such insurance providing coverage in respect of any Collateral.

(b) Ensure that proceeds payable under any property policy are, at Bank's option, payable to Bank on account of the Obligations.

(c) At Bank's request, Borrower shall deliver certified copies of insurance policies and evidence of all premium payments. Each provider of any such insurance required under this Section 6.7 shall agree, by endorsement upon the policy or policies issued by it or by independent instruments furnished to Bank, that it will give Bank twenty (20) days prior written notice (ten (10) days for cancellation as a result of non-payment of premium) before any such policy or policies shall be materially altered or canceled. If Borrower fails to obtain insurance as required under this Section 6.7 or to pay any amount or furnish any required proof of payment to third persons and Bank, Bank may make all or part of such payment or obtain such insurance policies required in this Section 6.7, and take any action under the policies Bank deems prudent.

6.8 Accounts.

(a) Maintain all of its and all of its Subsidiaries' operating and other deposit accounts, the Cash Collateral Account and securities/investment accounts with Bank and Bank's Affiliates, except for (i) the Wells Fargo Account solely for the purpose of collections, (ii) accounts containing only proceeds received from any Governmental Authority, solely to the extent and only in the amount that Borrower is required to receive such proceeds from such Governmental Authority in a separate account (such accounts, the "**Government Accounts**"), which proceeds shall be transferred weekly into the Wells Fargo Account or the Cash Collateral Account, (iii) accounts with financial institutions other than Bank, provided that (A) the aggregate amount of funds in such accounts does not exceed One Million Dollars ($1,000,000.00) (for all such accounts together) at any time and (B) each such account shall be subject to a Control Agreement in favor of Bank within ninety (90) days of the creation of such account and (iv) an account with Bank of America, so long as the aggregate amount in such account does not exceed Twenty-Five Thousand Dollars ($25,000.00) at any time. Any Guarantor shall maintain all depository, operating and securities/investment accounts with Bank and Bank's Affiliates.

(b) In addition to and without limiting the restrictions in (a), Borrower shall provide Bank five (5) days prior written notice before establishing any Collateral Account at or with any bank or financial institution other than Bank or Bank's Affiliates. For each Collateral Account that Bank (in its sole discretion) permits Borrower to open or maintain at any time, Borrower shall cause the applicable bank or financial institution (other than Bank) at or with which any Collateral Account is maintained to execute and deliver a Control Agreement or other appropriate instrument with respect to such Collateral Account to perfect Bank's Lien in such Collateral Account in accordance with the terms hereunder which Control Agreement may not be terminated without the prior written consent of Bank. The provisions of the previous sentence shall not apply to (a) deposit accounts exclusively used for payroll, payroll taxes, and other employee wage and benefit payments to or for the benefit of Borrower's employees and identified to Bank by Borrower as such and (b) Government Accounts.

6.9 Financial Covenant – Minimum Revenue. Have at all times, to be tested on a consolidated basis for Borrower and its Subsidiaries, as of the last day of each fiscal quarter, revenue for the trailing twelve (12) month period ending on the last day of such quarter, of at least:

Quarter ending (trailing 12 month period)	Revenue
December 31, 2017	$65,000,000.00
March 31, 2018	$64,000,000.00
June 30, 2018	$64,000,000.00
September 30, 2018	$65,000,000.00
December 31, 2018	$74,000,000.00
March 31, 2019	$75,000,000.00
June 30, 2019	$77,000,000.00
September 30, 2019	$79,000,000.00
December 31, 2019	$81,000,000.00
March 31, 2020	$85,000,000.00
June 30, 2020	$84,000,000.00
September 30, 2020	$86,000,000.00
December 31, 2020	$89,000,000.00
March 31, 2021	$91,000,000.00
June 30, 2021	$93,000,000.00
September 30, 2021	$95,000,000.00
December 31, 2021	$98,000,000.00
March 31, 2022	$100,000,000.00
June 30, 2022	$100,000,000.00
September 30, 2022	$100,000,000.00

Notwithstanding the foregoing, in the event that Borrower does not meet the foregoing revenue threshold for any quarter, such failure shall not be considered an Event of Default if Borrower has maintained and continues to maintain, to be tested as of any day after the last day of such quarter, Liquidity equal to at least Forty Million Dollars ($40,000,000.00) through and including the date that Bank receives satisfactory evidence that Borrower is in compliance with the revenue covenant for any following quarter.

6.10 Protection of Intellectual Property Rights.

(a) (i) Use commercially reasonable efforts to protect, defend and maintain the validity and enforceability of its Intellectual Property; (ii) promptly advise Bank in writing of material infringements or any other event that could reasonably be expected to materially and adversely affect the value of its Intellectual Property; and (iii) not allow any Intellectual Property material to Borrower's business to be abandoned, forfeited or dedicated to the public without Bank's written consent; provided, that Borrower may abandon, modify or delay the filing, prosecution or issuance of any Intellectual Property if Borrower determines in good faith that further prosecution of such application is not commercially reasonable or appropriate.

(b) Provide written notice to Bank within ten (10) days of entering or becoming bound by any Restricted License (other than over-the-counter software that is commercially available to the public). Borrower shall use such commercially reasonable efforts as Bank requests to obtain the consent of, or waiver by, any person whose consent or waiver is necessary for (i) any Restricted License to be deemed "Collateral" and for Bank to have a security interest in it that might otherwise be restricted or prohibited by law or by the terms of any such Restricted License, whether now existing or entered into in the future, and (ii) Bank to have the ability in the event of a liquidation of any Collateral to dispose of such Collateral in accordance with Bank's rights and remedies under this Agreement and the other Loan Documents.

6.11 Litigation Cooperation. From the date hereof and continuing through the termination of this Agreement, make available to Bank, without expense to Bank, Borrower and its officers, employees and agents and

Borrower's books and records, to the extent that Bank may deem them reasonably necessary to prosecute or defend any third-party suit or proceeding instituted by or against Bank with respect to any Collateral or relating to Borrower.

6.12 Online Banking.

(a) Utilize Bank's online banking platform for all matters reasonably requested by Bank which shall include, without limitation (and without request by Bank for the following matters), uploading information pertaining to Accounts and Account Debtors, requesting approval for exceptions, requesting Credit Extensions, and uploading financial statements and other reports required to be delivered by this Agreement (including, without limitation, those described in Section 6.2 of this Agreement).

(b) Comply with the terms of the "Banking Terms and Conditions" and ensure that all persons utilizing the online banking platform are duly authorized to do so by an Administrator. Bank shall be entitled to assume the authenticity, accuracy and completeness on any information, instruction or request for a Credit Extension submitted via the online banking platform and to further assume that any submissions or requests made via the online banking platform have been duly authorized by an Administrator.

6.13 Further Assurances. Execute any further instruments and take further action as Bank reasonably requests to perfect or continue Bank's Lien in the Collateral or to effect the purposes of this Agreement. Deliver to Bank, within five (5) days after the same are sent or received, copies of all correspondence, reports, documents and other filings with any Governmental Authority regarding compliance with or maintenance of Governmental Approvals or Requirements of Law or that could reasonably be expected to have a material effect on any of the Governmental Approvals or otherwise on the operations of Borrower or any of its Subsidiaries.

6.14 Post-Closing Requirements. Use commercially reasonable efforts to deliver to Bank, within forty-five (45) days of the Effective Date, in each case in form and substance reasonably satisfactory to Bank:

(a) a landlord's consent in favor of Bank for Borrower's leased location located at 6000 Shoreline Ct, Suite 300, South San Francisco, California 94080; and

(b) a bailee's waiver in favor of Bank for Borrower's third party location at 4305 Hamilton Mill Road, Suite 200, Buford, Georgia 30518, together with the duly executed original signature thereto.

6.15 Designated Senior Indebtedness. Borrower shall designate all principal of, interest (including all interest accruing after the commencement of any bankruptcy or similar proceeding, whether or not a claim for post-petition interest is allowable as a claim in any such proceeding), and all fees, costs, expenses, termination payments and other amounts accrued or due under this Agreement and under any Secured Rate Contract as "Designated Senior Indebtedness", or such similar term, in any future Subordinated Debt incurred by Borrower after the date hereof, if such Subordinated Debt contains such term or similar term and if the effect of such designation is to grant to Bank and any Secured Swap Providers the same or similar rights as granted to Bank and such Secured Swap Providers as a holder of "Designated Senior Indebtedness" under the Subordinated Debt documents.

6.16 Interest Rate Protection. If Borrower enters into Rate Contracts to hedge the interest rate with respect to the Credit Extensions, Borrower shall maintain at all times such Rate Contracts with one or more Secured Swap Providers selected by Bank in form and substance satisfactory to Bank and such Secured Swap Providers, which Rate Contracts shall be Secured Rate Contracts hereunder, in an aggregate notional amount to at no time exceed one hundred percent (100.0%) of the outstanding principal amount of the Credit Extensions.

7 NEGATIVE COVENANTS

Borrower shall not do any of the following without Bank's prior written consent:

7.1 Dispositions. Convey, sell, lease, transfer, assign, or otherwise dispose of (collectively, "**Transfer**"), or permit any of its Subsidiaries to Transfer, all or any part of its business or property, except for Transfers (a) of Inventory in the ordinary course of business; (b) of surplus, worn-out, fully depreciated or obsolete Equipment that is, in the reasonable judgment of Borrower, no longer economically practicable to maintain or useful in the ordinary course of business of Borrower; (c) to a Domestic Subsidiary which is a Borrower or Secured Guarantor; and (d) consisting of Permitted Liens and Permitted Investments.

7.2 Changes in Business, Management, Control, or Business Locations. (a) Engage in or permit any of its Subsidiaries to engage in any business other than the businesses currently engaged in by Borrower and such Subsidiary, as applicable, or reasonably related thereto; (b) liquidate or dissolve; (c) fail to provide notice to Bank of any Key Person departing from or ceasing to be employed by Borrower within five (5) days after such Key Person's departure from Borrower (provided, however, that such notice may be in the form of any public filing made by Borrower with the SEC as required by SEC regulations); or (d) permit or suffer any Change in Control.

Borrower shall not, without at least thirty (30) days prior written notice to Bank: (1) add any new offices or business locations, including warehouses (unless such new offices or business locations contain less than Two Million Dollars ($2,000,000.00) in Borrower's assets or property) or deliver any portion of the Collateral valued, individually or in the aggregate, in excess of Two Million Dollars ($2,000,000.00) to a bailee at a location other than to a bailee and at a location already disclosed in the Perfection Certificate, (2) change its jurisdiction of organization, (3) change its organizational structure or type, (4) change its legal name, or (5) change any organizational number (if any) assigned by its jurisdiction of organization. If Borrower intends to deliver any portion of the Collateral valued, individually or in the aggregate, in excess of Two Million Dollars ($2,000,000.00) to a bailee, and Bank and such bailee are not already parties to a bailee agreement governing both the Collateral and the location to which Borrower intends to deliver the Collateral, then Borrower will first receive the written consent of Bank, and such bailee shall execute and deliver a bailee agreement in form and substance satisfactory to Bank. Any notices provided to Bank pursuant to this Section 7.2 shall be deemed to update the information provided by Borrower in the Perfection Certificate.

7.3 Mergers or Acquisitions. Merge or consolidate, or permit any of its Subsidiaries to merge or consolidate, with any other Person, or acquire, or permit any of its Subsidiaries to acquire, all or substantially all of the capital stock or property of another Person (including, without limitation, by the formation of any Subsidiary), except for Permitted Acquisitions. Borrower or a Subsidiary may merge or consolidate into another Subsidiary or into Borrower, provided that the Borrower and each Secured Guarantor are surviving entities if such merger of consolidation includes a Borrower or a Secured Guarantor.

7.4 Indebtedness. Create, incur, assume, or be liable for any Indebtedness, or permit any Subsidiary to do so, other than Permitted Indebtedness.

7.5 Encumbrance. Create, incur, allow, or suffer any Lien on any of its property, or assign or convey any right to receive income, including the sale of any Accounts, or permit any of its Subsidiaries to do so, except for Permitted Liens, permit any Collateral not to be subject to the first priority security interest granted herein,or enter into any agreement, document, instrument or other arrangement (except with or in favor of Bank) with any Person which directly or indirectly prohibits or has the effect of prohibiting Borrower or any Subsidiary from assigning, mortgaging, pledging, granting a security interest in or upon, or encumbering any of Borrower's or any Subsidiary's Intellectual Property, except as is otherwise permitted in Section 7.1 hereof and the definition of "Permitted Liens" herein.

7.6 Maintenance of Collateral Accounts. Maintain any Collateral Account except pursuant to the terms of Section 6.8(b) hereof.

7.7 Distributions; Investments. (a) Pay any dividends or make any distribution or payment or redeem, retire or purchase any capital stock; or (b) directly or indirectly make any Investment (including, without limitation, by the formation of any Subsidiary) other than Permitted Investments, or permit any of its Subsidiaries to do so.

7.8 Transactions with Affiliates. Directly or indirectly enter into or permit to exist any material transaction with any Affiliate of Borrower, except for (a) transactions that are in the ordinary course of Borrower's business, upon fair and reasonable terms that are no less favorable to Borrower than would be obtained in an arm's length transaction with a non-affiliated Person, (b) compensation-related transactions in the ordinary course of business, provided that such transactions are approved by the Board, (c) the sale of Borrower's equity securities in a bona fide equity financing to the extent not otherwise prohibited by Section 7.2 and approved by the Board and (d) Subordinated Debt financings approved by the Board.

7.9 Subordinated Debt. (a) Make or permit any payment on any Subordinated Debt, except under the terms of the subordination, intercreditor, or other similar agreement to which such Subordinated Debt is subject, or (b) amend any provision in any document relating to the Subordinated Debt which would increase the amount thereof, provide for earlier or greater principal, interest, or other payments thereon, or adversely affect the subordination thereof to Obligations owed to Bank.

7.10 Compliance. Become an "investment company" or a company controlled by an "investment company", under the Investment Company Act of 1940, as amended, or undertake as one of its important activities extending credit to purchase or carry margin stock (as defined in Regulation U of the Board of Governors of the Federal Reserve System), or use the proceeds of any Credit Extension for that purpose; fail to meet the minimum funding requirements of ERISA, permit a Reportable Event or Prohibited Transaction, as defined in ERISA, to occur; fail to comply with the Federal Fair Labor Standards Act or violate any other law or regulation, if the violation would reasonably be expected to have a material adverse effect on Borrower's business, or permit any of its Subsidiaries to do so; withdraw or permit any Subsidiary to withdraw from participation in, permit partial or complete termination of, or permit the occurrence of any other event with respect to, any present pension, profit sharing and deferred compensation plan which could reasonably be expected to result in any liability of Borrower, including any liability to the Pension Benefit Guaranty Corporation or its successors or any other governmental agency.

7.11 Austin Location Asset Limit. Hold or maintain at any time, at Borrower's leased location located at 12357-A Riata Trace Parkway, Building 5, Suite 100, Austin, Texas 78727, assets (other than Equipment subject to capital leases that is not owned by Borrower) with an aggregate net book value exceeding Two Million Dollars ($2,000,000.00) to the extent that Bank has not previously received, in form and substance reasonably satisfactory to Bank (a) a subordination agreement or (b) a landlord's consent, in either case from the landlord for such premises.

8 EVENTS OF DEFAULT

Any one of the following shall constitute an event of default (an "**Event of Default**") under this Agreement:

8.1 Payment Default. Borrower fails to (a) make any payment of principal or interest on any Credit Extension when due, or (b) pay any other Obligations within three (3) Business Days after such Obligations are due and payable (which three (3) Business Day cure period shall not apply to payments due on the Revolving Line Maturity Date or the Term Loan Maturity Date). During the cure period, the failure to make or pay any payment specified under clause (b) hereunder is not an Event of Default (but no Credit Extension will be made during the cure period);

8.2 Covenant Default.

(a) Borrower fails or neglects to perform any obligation in Sections 6.2, 6.3, 6.4, 6.5, 6.6, 6.7, 6.8, 6.9, 6.10(b), 6.12, 6.14, 6.15, or 6.16 or violates any covenant in Section 7; or

(b) Borrower fails or neglects to perform, keep, or observe any other term, provision, condition, covenant or agreement contained in this Agreement or any Loan Documents, and as to any default (other than those specified in this Section 8) under such other term, provision, condition, covenant or agreement that can be cured, has failed to cure the default within ten (10) days after the occurrence thereof; provided, however, that if the default cannot by its nature

be cured within the ten (10) day period or cannot after diligent attempts by Borrower be cured within such ten (10) day period, and such default is likely to be cured within a reasonable time, then Borrower shall have an additional period (which shall not in any case exceed thirty (30) days) to attempt to cure such default, and within such reasonable time period the failure to cure the default shall not be deemed an Event of Default (but no Credit Extensions shall be made during such cure period). Cure periods provided under this section shall not apply, among other things, to financial covenants or any other covenants set forth in clause (a) above;

8.3 Material Adverse Change. A Material Adverse Change occurs;

8.4 Attachment; Levy; Restraint on Business.

(a) (i) The service of process seeking to attach, by trustee or similar process, any funds of Borrower or of any entity under the control of Borrower (including a Subsidiary), or (ii) a notice of lien or levy is filed against any of Borrower's assets by any Governmental Authority, and the same under subclauses (i) and (ii) hereof are not, within ten (10) days after the occurrence thereof, discharged or stayed (whether through the posting of a bond or otherwise); provided, however, no Credit Extensions shall be made during any ten (10) day cure period; or

(b) (i) any material portion of Borrower's assets is attached, seized, levied on, or comes into possession of a trustee or receiver, or (ii) any court order enjoins, restrains, or prevents Borrower from conducting all or any material part of its business;

8.5 Insolvency. (a) Borrower or any of its Subsidiaries is unable to pay its debts (including trade debts) as they become due or otherwise becomes insolvent; (b) Borrower or any of its Subsidiaries begins an Insolvency Proceeding; or (c) an Insolvency Proceeding is begun against Borrower or any of its Subsidiaries and is not dismissed or stayed within thirty (30) days (but no Credit Extensions shall be made while any of the conditions described in clause (a) exist and/or until any Insolvency Proceeding is dismissed);

8.6 Other Agreements. There is, under any agreement to which Borrower or any Guarantor is a party with a third party or parties, (a) any default resulting in a right by such third party or parties, whether or not exercised, to accelerate the maturity of any Indebtedness in an amount individually or in the aggregate in excess of Five Hundred Thousand Dollars ($500,000.00); or (b) any breach or default by Borrower or Guarantor, the result of which would reasonably be expected to have a material adverse effect on Borrower's or any Guarantor's business;

8.7 Judgments; Penalties. One or more fines, penalties or final judgments, orders or decrees for the payment of money in an amount, individually or in the aggregate, of at least One Million Dollars ($1,000,000.00) (not covered by independent third-party insurance as to which liability has been accepted by such insurance carrier) shall be rendered against Borrower by any Governmental Authority, and the same are not, within ten (10) days after the entry, assessment or issuance thereof, discharged, satisfied, or paid, or after execution thereof, stayed or bonded pending appeal, or such judgments are not discharged prior to the expiration of any such stay (provided that no Credit Extensions will be made prior to the satisfaction, payment, discharge, stay, or bonding of such fine, penalty, judgment, order or decree);

8.8 Misrepresentations. Borrower or any Person acting for Borrower makes any representation, warranty, or other statement now or later in this Agreement, any Loan Document or in any writing delivered to Bank or to induce Bank to enter this Agreement or any Loan Document, and such representation, warranty, or other statement is incorrect in any material respect when made;

8.9 Subordinated Debt. Any document, instrument, or agreement evidencing any Subordinated Debt shall for any reason be revoked or invalidated or otherwise cease to be in full force and effect, any Person shall be in breach thereof or contest in any manner the validity or enforceability thereof or deny that it has any further liability or obligation thereunder, or the Obligations shall for any reason be subordinated or shall not have the priority contemplated by this Agreement or any applicable subordination or intercreditor agreement;

8.10 Guaranty. (a) Any guaranty of any Obligations terminates or ceases for any reason to be in full force and effect; (b) any Guarantor does not perform any obligation or covenant under any guaranty of the Obligations; (c) any circumstance described in Sections 8.3, 8.4, 8.5, 8.6, 8.7, or 8.8 of this Agreement occurs with respect to any Guarantor, (d) the death, liquidation, winding up, or termination of existence of any Guarantor; or (e) (i) a material impairment in the perfection or priority of Bank's Lien in the collateral provided by Guarantor or in the value of such collateral or (ii) a material adverse change in the general affairs, management, results of operation, condition (financial or otherwise) or the prospect of repayment of the Obligations occurs with respect to any Guarantor; or

8.11 Governmental Approvals. Any Governmental Approval shall have been (a) revoked, rescinded, suspended, modified in an adverse manner or not renewed in the ordinary course for a full term or (b) subject to any decision by a Governmental Authority that designates a hearing with respect to any applications for renewal of any of such Governmental Approval or that would likely result in the Governmental Authority taking any of the actions described in clause (a) above, and in the case of either clause (a) or clause (b) such decision or such revocation, rescission, suspension, modification or non-renewal causes, or could reasonably be expected to cause, a Material Adverse Change.

8.12 Secured Rate Contracts. An event of default occurs under any Secured Rate Contract.

9 BANK'S RIGHTS AND REMEDIES

9.1 Rights and Remedies. Upon the occurrence and during the continuance of an Event of Default, Bank, for itself and as agent for each Secured Swap Provider, may, without notice or demand, do any or all of the following:

(a) declare all Obligations immediately due and payable (but if an Event of Default described in Section 8.5 occurs all Obligations are immediately due and payable without any action by Bank);

(b) stop advancing money or extending credit for Borrower's benefit under this Agreement or under any other agreement between Borrower and Bank;

(c) demand that Borrower (i) deposit cash with Bank in an amount equal to at least (A) one hundred percent (100.0%) of the Dollar Equivalent of the aggregate face amount of all Letters of Credit denominated in Dollars remaining undrawn, and (B) one hundred five percent (105.0%) of the Dollar Equivalent of the aggregate face amount of all Letters of Credit denominated in a Foreign Currency remaining undrawn (plus, in each case, all interest, fees, and costs due or to become due in connection therewith (as estimated by Bank in its reasonable good faith business judgment)), to secure all of the Loan Obligations relating to such Letters of Credit, as collateral security for the repayment of any future drawings under such Letters of Credit, and Borrower shall forthwith deposit and pay such amounts, (ii) pay in advance all letter of credit fees scheduled to be paid or payable over the remaining term of any Letters of Credit, and (iii) deposit with Bank, to hold as agent for the Secured Swap Providers, cash collateral in an amount determined by Bank and/or the Secured Swap Providers to be necessary to secure the unmatured obligations of Borrower under the Secured Rate Contracts, and Borrower shall forthwith deposit and pay such amounts;

(d) terminate any FX Contracts or require cash collateralization satisfactory to Bank with respect thereof;

(e) verify the amount of, demand payment of and performance under, and collect any Accounts and General Intangibles, settle or adjust disputes and claims directly with Account Debtors for amounts on terms and in any order that Bank considers advisable, and notify any Person owing Borrower money of Bank's security interest in such funds. Borrower shall collect all payments in trust for Bank and, if requested by Bank, immediately deliver the payments to Bank in the form received from the Account Debtor, with proper endorsements for deposit;

(f) make any payments and do any acts it considers necessary or reasonable to protect the Collateral and/or its security interest in the Collateral. Borrower shall assemble the Collateral if Bank requests and make it available as Bank designates. Bank may enter premises where the Collateral is located, take and maintain possession of any part of the Collateral, and pay, purchase, contest, or compromise any Lien which appears to be prior or superior to its security interest and pay all expenses incurred. Borrower grants Bank a license to enter and occupy any of its premises, without charge, to exercise any of Bank's rights or remedies;

(g) apply to the Obligations any (i) balances and deposits of Borrower it holds, or (ii) amount held by Bank owing to or for the credit or the account of Borrower;

(h) ship, reclaim, recover, store, finish, maintain, repair, prepare for sale, advertise for sale, and sell the Collateral. Bank is hereby granted a non-exclusive, royalty-free license or other right to use, without charge, Borrower's labels, Patents, Copyrights, mask works, rights of use of any name, trade secrets, trade names, Trademarks, and advertising matter, or any similar property as it pertains to the Collateral, in completing production of, advertising for sale, and selling any Collateral and, in connection with Bank's exercise of its rights under this Section 9.1, Borrower's rights under all licenses and all franchise agreements inure to Bank's benefit;

(i) place a "hold" on any account maintained with Bank and/or deliver a notice of exclusive control, any entitlement order, or other directions or instructions pursuant to any Control Agreement or similar agreements providing control of any Collateral;

(j) demand and receive possession of Borrower's Books; and

(k) exercise all rights and remedies available to Bank under the Loan Documents or at law or equity, including all remedies provided under the Code (including disposal of the Collateral pursuant to the terms thereof).

9.2 Power of Attorney. Borrower hereby irrevocably appoints Bank as its lawful attorney-in-fact, exercisable following the occurrence and during the continuance of an Event of Default, to: (a) endorse Borrower's name on any checks, payment instruments, or other forms of payment or security; (b) sign Borrower's name on any invoice or bill of lading for any Account or drafts against Account Debtors; (c) demand, collect, sue, and give releases to any Account Debtor for monies due, settle and adjust disputes and claims about the Accounts directly with Account Debtors, and compromise, prosecute, or defend any action, claim, case, or proceeding about any Collateral (including filing a claim or voting a claim in any bankruptcy case in Bank's or Borrower's name, as Bank chooses); (d) make, settle, and adjust all claims under Borrower's insurance policies; (e) pay, contest or settle any Lien, charge, encumbrance, security interest, or other claim in or to the Collateral, or any judgment based thereon, or otherwise take any action to terminate or discharge the same; and (f) transfer the Collateral into the name of Bank or a third party as the Code permits. Borrower hereby appoints Bank as its lawful attorney-in-fact to sign Borrower's name on any documents necessary to perfect or continue the perfection of Bank's security interest in the Collateral regardless of whether an Event of Default has occurred until all Obligations have been satisfied in full and the Loan Documents have been terminated. Bank's foregoing appointment as Borrower's attorney in fact, and all of Bank's rights and powers, coupled with an interest, are irrevocable until all Obligations have been fully repaid and performed and the Loan Documents have been terminated.

9.3 Protective Payments. If Borrower fails to obtain the insurance called for by Section 6.7 or fails to pay any premium thereon or fails to pay any other amount which Borrower is obligated to pay under this Agreement or any other Loan Document or which may be required to preserve the Collateral, Bank may obtain such insurance or make such payment, and all amounts so paid by Bank are Bank Expenses and immediately due and payable, bearing interest at the then highest rate applicable to the Loan Obligations, and secured by the Collateral. Bank will make reasonable efforts to provide Borrower with notice of Bank obtaining such insurance at the time it is obtained or within a reasonable time thereafter. No payments by Bank are deemed an agreement to make similar payments in the future or Bank's waiver of any Event of Default.

9.4 Application of Payments and Proceeds. Bank shall have the right to apply in any order any funds in its possession, whether from Borrower account balances, payments, proceeds realized as the result of any collection of Accounts or other disposition of the Collateral, or otherwise, to the Obligations. Bank shall pay any surplus to Borrower by credit to the Designated Deposit Account or to other Persons legally entitled thereto; Borrower shall remain liable to Bank for any deficiency. If Bank, directly or indirectly, enters into a deferred payment or other credit transaction with any purchaser at any sale of Collateral, Bank shall have the option, exercisable at any time, of either reducing the Obligations by the principal amount of the purchase price or deferring the reduction of the Obligations until the actual receipt by Bank of cash therefor.

9.5 Bank's Liability for Collateral. So long as Bank complies with reasonable banking practices regarding the safekeeping of the Collateral in the possession or under the control of Bank, Bank shall not be liable or responsible for: (a) the safekeeping of the Collateral; (b) any loss or damage to the Collateral; (c) any diminution in the value of the Collateral; or (d) any act or default of any carrier, warehouseman, bailee, or other Person. Borrower bears all risk of loss, damage or destruction of the Collateral.

9.6 No Waiver; Remedies Cumulative. Bank's failure, at any time or times, to require strict performance by Borrower of any provision of this Agreement or any other Loan Document shall not waive, affect, or diminish any right of Bank thereafter to demand strict performance and compliance herewith or therewith. No waiver hereunder shall be effective unless signed by the party granting the waiver and then is only effective for the specific instance and purpose for which it is given. Bank's rights and remedies under this Agreement and the other Loan Documents are cumulative. Bank has all rights and remedies provided under the Code, by law, or in equity. Bank's exercise of one right or remedy is not an election and shall not preclude Bank from exercising any other remedy under this Agreement or other remedy available at law or in equity, and Bank's waiver of any Event of Default is not a continuing waiver. Bank's delay in exercising any remedy is not a waiver, election, or acquiescence.

9.7 Demand Waiver. Borrower waives demand, notice of default or dishonor, notice of payment and nonpayment, notice of any default, nonpayment at maturity, release, compromise, settlement, extension, or renewal of accounts, documents, instruments, chattel paper, and guarantees held by Bank on which Borrower is liable.

10 NOTICES

All notices, consents, requests, approvals, demands, or other communication by any party to this Agreement or any other Loan Document must be in writing and shall be deemed to have been validly served, given, or delivered: (a) upon the earlier of actual receipt and three (3) Business Days after deposit in the U.S. mail, first class, registered or certified mail return receipt requested, with proper postage prepaid; (b) upon transmission, when sent by electronic mail or facsimile transmission; (c) one (1) Business Day after deposit with a reputable overnight courier with all charges prepaid; or (d) when delivered, if hand-delivered by messenger, all of which shall be addressed to the party to be notified and sent to the address, facsimile number, or email address indicated below. Bank or Borrower may change its mailing or electronic mail address or facsimile number by giving the other party written notice thereof in accordance with the terms of this Section 10.

If to Borrower:	VERACYTE, INC. 6000 Shoreline Court #300 South San Francisco, CA 94080 Attn: Keith Kennedy and Mark Ho Email: keith@veracyte.com mark@veracyte.com Website URL: www.veracyte.com
with a copy (which shall not constitute notice) to:	FENWICK & WEST LLP Attn: Doug Cogen, Esq. and David Michaels, Esq. 555 California St., 12th Floor San Francisco, CA 94104 Telephone: (415)875-2300 Email: dcogen@fenwick.com dmichaels@fenwick.com
If to Bank:	Silicon Valley Bank 505 Howard Street, Suite 300 San Francisco, California 94105 Attn: Milo Bissin Fax: Email: MBissin@svb.com
with a copy to:	Riemer & Braunstein LLP Three Center Plaza Boston, Massachusetts 02108 Attn: David A. Ephraim, Esquire Fax: (617) 880-3456 Email: DEphraim@riemerlaw.com

11 CHOICE OF LAW, VENUE, JURY TRIAL WAIVER AND JUDICIAL REFERENCE

Except as otherwise expressly provided in any of the Loan Documents, California law governs the Loan Documents without regard to principles of conflicts of law. Borrower and Bank each submit to the exclusive jurisdiction of the State and Federal courts in Santa Clara County, California; provided, however, that nothing in this Agreement shall be deemed to operate to preclude Bank from bringing suit or taking other legal action in any other jurisdiction to realize on the Collateral or any other security for the Obligations, or to enforce a judgment or other court order in favor of Bank. Borrower expressly submits and consents in advance to such jurisdiction in any action or suit commenced in any such court, and Borrower hereby waives any objection that it may have based upon lack of personal jurisdiction, improper venue, or forum non conveniens and hereby consents to the granting of such legal or equitable relief as is deemed appropriate by such court. Borrower hereby waives personal service of the summons, complaints, and other process issued in such action or suit and agrees that service of such summons, complaints, and other process may be made by registered or certified mail addressed to Borrower at the address set forth in, or subsequently provided by Borrower in accordance with, Section 10 of this Agreement and that service so made shall be deemed completed upon

the earlier to occur of Borrower's actual receipt thereof or three (3) days after deposit in the U.S. mails, proper postage prepaid.

TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, BORROWER AND BANK EACH WAIVE THEIR RIGHT TO A JURY TRIAL OF ANY CLAIM OR CAUSE OF ACTION ARISING OUT OF OR BASED UPON THIS AGREEMENT, THE LOAN DOCUMENTS OR ANY CONTEMPLATED TRANSACTION, INCLUDING CONTRACT, TORT, BREACH OF DUTY AND ALL OTHER CLAIMS. THIS WAIVER IS A MATERIAL INDUCEMENT FOR BOTH PARTIES TO ENTER INTO THIS AGREEMENT. EACH PARTY HAS REVIEWED THIS WAIVER WITH ITS COUNSEL.

WITHOUT INTENDING IN ANY WAY TO LIMIT THE PARTIES' AGREEMENT TO WAIVE THEIR RESPECTIVE RIGHT TO A TRIAL BY JURY, if the above waiver of the right to a trial by jury is not enforceable, the parties hereto agree that any and all disputes or controversies of any nature between them arising at any time shall be decided by a reference to a private judge, mutually selected by the parties (or, if they cannot agree, by the Presiding Judge of the Santa Clara County, California Superior Court) appointed in accordance with California Code of Civil Procedure Section 638 (or pursuant to comparable provisions of federal law if the dispute falls within the exclusive jurisdiction of the federal courts), sitting without a jury, in Santa Clara County, California; and the parties hereby submit to the jurisdiction of such court. The reference proceedings shall be conducted pursuant to and in accordance with the provisions of California Code of Civil Procedure Sections 638 through 645.1, inclusive. The private judge shall have the power, among others, to grant provisional relief, including without limitation, entering temporary restraining orders, issuing preliminary and permanent injunctions and appointing receivers. All such proceedings shall be closed to the public and confidential and all records relating thereto shall be permanently sealed. If during the course of any dispute, a party desires to seek provisional relief, but a judge has not been appointed at that point pursuant to the judicial reference procedures, then such party may apply to the Santa Clara County, California Superior Court for such relief. The proceeding before the private judge shall be conducted in the same manner as it would be before a court under the rules of evidence applicable to judicial proceedings. The parties shall be entitled to discovery which shall be conducted in the same manner as it would be before a court under the rules of discovery applicable to judicial proceedings. The private judge shall oversee discovery and may enforce all discovery rules and orders applicable to judicial proceedings in the same manner as a trial court judge. The parties agree that the selected or appointed private judge shall have the power to decide all issues in the action or proceeding, whether of fact or of law, and shall report a statement of decision thereon pursuant to California Code of Civil Procedure Section 644(a). Nothing in this paragraph shall limit the right of any party at any time to exercise self-help remedies, foreclose against collateral, or obtain provisional remedies. The private judge shall also determine all issues relating to the applicability, interpretation, and enforceability of this paragraph.

This Section 11 shall survive the termination of this Agreement.

12 GENERAL PROVISIONS

12.1 Termination Prior to Maturity Date; Survival. All covenants, representations and warranties made in this Agreement shall continue in full force until this Agreement has terminated pursuant to its terms and all Obligations (other than inchoate indemnity obligations, and any other obligations which, by their terms, are to survive the termination of this Agreement) have been satisfied. So long as Borrower has satisfied the Obligations (other than inchoate indemnity obligations, and any other obligations which, by their terms, are to survive the termination of this Agreement, and any Obligations under Bank Services Agreements that are cash collateralized in accordance with Section 4.1 of this Agreement), this Agreement may be terminated prior to the Revolving Line Maturity Date and the Term Loan Maturity Date by Borrower, effective three (3) Business Days after written notice of termination is given to Bank. Those obligations that are expressly specified in this Agreement as surviving this Agreement's termination shall continue to survive notwithstanding this Agreement's termination.

12.2 Successors and Assigns. This Agreement binds and is for the benefit of the successors and permitted assigns of each party. Borrower may not assign this Agreement or any rights or obligations under it without Bank's prior written consent (which may be granted or withheld in Bank's discretion). Bank has the right, without the consent of or notice to Borrower, to sell, transfer, assign, negotiate, or grant participation in all or any

part of, or any interest in, Bank's obligations, rights, and benefits under this Agreement and the other Loan Documents. Notwithstanding the foregoing, so long as no Event of Default shall have occurred and is continuing, Bank shall not assign its interest in the Loan Documents to any Person who in the reasonable estimation of Bank is (a) a direct competitor of Borrower, whether as an operating company or direct or indirect parent with voting control over such operating company, or (b) a vulture fund or distressed debt fund.

12.3 Indemnification. Borrower agrees to indemnify, defend and hold Bank, any Secured Swap Provider, and their directors, officers, employees, agents, attorneys, or any other Person affiliated with or representing Bank or any Secured Swap Provider (each, an "**Indemnified Person**") harmless against: (i) all obligations, demands, claims, and liabilities (collectively, "**Claims**") claimed or asserted by any other party in connection with the transactions contemplated by the Loan Documents or any Secured Rate Contract; and (ii) all losses or expenses (including Bank Expenses) in any way suffered, incurred, or paid by such Indemnified Person as a result of, following from, consequential to, or arising from transactions between Bank or Secured Swap Provider and Borrower contemplated by the Loan Documents or any Secured Rate Contract (including reasonable attorneys' fees and expenses), except for Claims and/or losses directly caused by such Indemnified Person's gross negligence or willful misconduct.

This Section 12.3 shall survive until all statutes of limitation with respect to the Claims, losses, and expenses for which indemnity is given shall have run.

12.4 Time of Essence. Time is of the essence for the performance of all Obligations in this Agreement.

12.5 Severability of Provisions. Each provision of this Agreement is severable from every other provision in determining the enforceability of any provision.

12.6 Correction of Loan Documents. Bank may correct patent errors and fill in any blanks in the Loan Documents consistent with the agreement of the parties.

12.7 Amendments in Writing; Waiver; Integration. No purported amendment or modification of any Loan Document, or waiver, discharge or termination of any obligation under any Loan Document, shall be enforceable or admissible unless, and only to the extent, expressly set forth in a writing signed by the party against which enforcement or admission is sought. Without limiting the generality of the foregoing, no oral promise or statement, nor any action, inaction, delay, failure to require performance or course of conduct shall operate as, or evidence, an amendment, supplement or waiver or have any other effect on any Loan Document. Any waiver granted shall be limited to the specific circumstance expressly described in it, and shall not apply to any subsequent or other circumstance, whether similar or dissimilar, or give rise to, or evidence, any obligation or commitment to grant any further waiver. The Loan Documents represent the entire agreement about this subject matter and supersede prior negotiations or agreements. All prior agreements, understandings, representations, warranties, and negotiations between the parties about the subject matter of the Loan Documents merge into the Loan Documents. Notwithstanding anything to the contrary contained in this Agreement, no amendment, waiver or consent of this Agreement or any Loan Document alternating the ratable treatment of the Secured Swap Obligations and resulting in such Secured Swap Obligations being junior in right of payment to principal on the Loan Obligations owing to Bank, or resulting in Secured Swap Obligations owing to any Secured Swap Provider becoming unsecured (other than releases and modifications of Liens permitted in accordance with the terms hereof), in each manner adverse to any Secured Swap Provider, shall be effective without the written consent of such Secured Swap Provider.

12.8 Counterparts. This Agreement may be executed in any number of counterparts and by different parties on separate counterparts, each of which, when executed and delivered, is an original, and all taken together, constitute one Agreement.

12.9 Confidentiality. In handling any confidential information, including but not limited to any confidential information obtained pursuant to any audit, Bank shall exercise the same degree of care that it exercises for its own proprietary information, but disclosure of information may be made: (a) to Bank's Subsidiaries or Affiliates (such Subsidiaries and Affiliates, together with Bank, collectively, "Bank Entities"); (b) to prospective

transferees or purchasers of any interest in the Credit Extensions (provided, however, that any prospective transferee or purchaser shall have entered into an agreement containing provisions substantially the same as those in this Section 12.9); (c) as required by law, regulation, subpoena, or other order; (d) to Bank's regulators or as otherwise required in connection with Bank's examination or audit; (e) as Bank considers appropriate in exercising remedies under the Loan Documents; and (f) to third-party service providers of Bank so long as such service providers have executed a confidentiality agreement with Bank with terms no less restrictive than those contained herein. Confidential information does not include information that is either: (i) in the public domain or in Bank's possession when disclosed to Bank, or becomes part of the public domain (other than as a result of its disclosure by Bank in violation of this Agreement) after disclosure to Bank; or (ii) disclosed to Bank by a third party, if Bank does not know that the third party is prohibited from disclosing the information.

Bank Entities may use anonymous forms of confidential information for aggregate datasets, for analyses or reporting, and for any other uses not expressly prohibited in writing by Borrower. The provisions of the immediately preceding sentence shall survive the termination of this Agreement.

12.10 Attorneys' Fees, Costs and Expenses. In any action or proceeding between Borrower and Bank arising out of or relating to the Loan Documents, the prevailing party shall be entitled to recover its reasonable attorneys' fees and other costs and expenses incurred, in addition to any other relief to which it may be entitled.

12.11 Electronic Execution of Documents. The words "execution," "signed," "signature" and words of like import in any Loan Document shall be deemed to include electronic signatures or the keeping of records in electronic form, each of which shall be of the same legal effect, validity and enforceability as a manually executed signature or the use of a paper-based recordkeeping systems, as the case may be, to the extent and as provided for in any applicable law, including, without limitation, any state law based on the Uniform Electronic Transactions Act.

12.12 Right of Setoff. Borrower hereby grants to Bank a Lien and a right of setoff as security for all Obligations to Bank, whether now existing or hereafter arising upon and against all deposits, credits, collateral and property, now or hereafter in the possession, custody, safekeeping or control of Bank or any entity under the control of Bank (including a subsidiary of Bank) or in transit to any of them. At any time after the occurrence and during the continuance of an Event of Default, without demand or notice, Bank may setoff the same or any part thereof and apply the same to any liability or Obligation of Borrower even though unmatured and regardless of the adequacy of any other collateral securing the Obligations. ANY AND ALL RIGHTS TO REQUIRE BANK TO EXERCISE ITS RIGHTS OR REMEDIES WITH RESPECT TO ANY OTHER COLLATERAL WHICH SECURES THE OBLIGATIONS, PRIOR TO EXERCISING ITS RIGHT OF SETOFF WITH RESPECT TO SUCH DEPOSITS, CREDITS OR OTHER PROPERTY OF BORROWER, ARE HEREBY KNOWINGLY, VOLUNTARILY AND IRREVOCABLY WAIVED.

12.13 Captions. The headings used in this Agreement are for convenience only and shall not affect the interpretation of this Agreement.

12.14 Construction of Agreement. The parties mutually acknowledge that they and their attorneys have participated in the preparation and negotiation of this Agreement. In cases of uncertainty this Agreement shall be construed without regard to which of the parties caused the uncertainty to exist.

12.15 Relationship. The relationship of the parties to this Agreement is determined solely by the provisions of this Agreement. The parties do not intend to create any agency, partnership, joint venture, trust, fiduciary or other relationship with duties or incidents different from those of parties to an arm's-length contract.

12.16 Third Parties. Nothing in this Agreement, whether express or implied, is intended to: (a) confer any benefits, rights or remedies under or by reason of this Agreement on any persons other than the express parties to it and their respective permitted successors and assigns (except for any benefits, rights or remedies expressly granted herein to Secured Swap Providers); (b) relieve or discharge the obligation or liability of any person not an

express party to this Agreement; or (c) give any person not an express party to this Agreement any right of subrogation or action against any party to this Agreement.

12.17 Tax Forms. Bank and each of its successors and assigns shall deliver to Borrower at such times as are reasonably requested by Borrower, such properly completed and executed tax documentation prescribed by law (including FATCA), or reasonably requested by Borrower to establish such recipient's status for withholding tax purposes or allow Borrower to make payments hereunder, without withholding for any taxes (or otherwise at a reduced rate of withholding), including without limitation, Forms W-9, W-8BEN-E, W-8BEN, W-8IMY, or W-8EXP, as applicable. Any reasonable, documented and out-of-pocket costs and expenses incurred by Bank in connection with this Section 12.17 shall constitute Bank Expenses.

13 DEFINITIONS

13.1 Definitions. As used in the Loan Documents, the word "shall" is mandatory, the word "may" is permissive, the word "or" is not exclusive, the words "includes" and "including" are not limiting, the singular includes the plural, and numbers denoting amounts that are set off in brackets are negative. As used in this Agreement, the following capitalized terms have the following meanings:

"**Account**" is, as to any Person, any "**account**" of such Person as "account" is defined in the Code with such additions to such term as may hereafter be made, and includes, without limitation, all accounts receivable and other sums owing to such Person.

"**Account Debtor**" is any "**account debtor**" as defined in the Code with such additions to such term as may hereafter be made.

"**Administrator**" is an individual that is named:

(a) as an "Administrator" in the "SVB Online Services" form completed by Borrower with the authority to determine who will be authorized to use SVB Online Services (as defined in the "Banking Terms and Conditions") on behalf of Borrower; and

(b) as an Authorized Signer of Borrower in an approval by the Board.

"**Advance**" or "**Advances**" means a revolving credit loan (or revolving credit loans) under the Revolving Line.

"**Affiliate**" is, with respect to any Person, each other Person that owns or controls directly or indirectly the Person, any Person that controls or is controlled by or is under common control with the Person, and each of that Person's senior executive officers, directors, partners and, for any Person that is a limited liability company, that Person's managers and members. For purposes of the definition of Eligible Accounts, Affiliate shall include a Specified Affiliate.

"**Agreement**" is defined in the preamble hereof.

"**Anniversary Fees**" is defined in Section 2.6(e).

"**Applicable Rate**" is the rate of interest per annum from time to time published in the money rates section of The Wall Street Journal or any successor publication thereto as the thirty (30) day U.S. LIBOR rate then in effect; provided that, in the event such rate of interest is less than zero, such rate shall be deemed to be zero for purposes of this Agreement; and provided further that if such rate of interest, as set forth from time to time in the money rates section of The Wall Street Journal, becomes unavailable for any reason as determined by Bank, the "Applicable Rate" shall mean the "prime rate" from time to time published in the money rates section of The Wall Street Journal; provided that, in the event such rate of interest is less than zero, such rate shall be deemed to be zero for purposes of this Agreement; provided further that if the "Applicable Rate" shall become the "prime rate", Bank and Borrower agree that the applicable interest rate spreads set forth in Sections 2.5(a)(i) and 2.5(a)(ii) shall each be adjusted once to reflect the overall interest

rate which was otherwise applicable immediately prior to the thirty (30) day U.S. LIBOR rate becoming unavailable, but will otherwise continue to be floating rates of interest following such adjustment.

"**Authorized Signer**" is any individual listed in Borrower's Borrowing Resolution who is authorized to execute the Loan Documents, including making (and executing if applicable) any Credit Extension request, on behalf of Borrower.

"**Availability Amount**" is (a) the lesser of (i) the Revolving Line or (ii) the amount available under the Borrowing Base minus (b) the outstanding principal balance of any Advances.

"**Bank**" is defined in the preamble hereof.

"**Bank Entities**" is defined in Section 12.9.

"**Bank Expenses**" are all audit fees and expenses, costs, and expenses (including reasonable, documented and out-of-pocket attorneys' fees and expenses) for preparing, amending, negotiating, administering, defending and enforcing the Loan Documents (including, without limitation, those incurred in connection with appeals or Insolvency Proceedings) or otherwise incurred with respect to Borrower or any Guarantor.

"**Bank Services**" are any products, credit services, and/or financial accommodations previously, now, or hereafter provided to Borrower or any of its Subsidiaries by Bank or any Bank Affiliate, including, without limitation, any letters of credit, cash management services (including, without limitation, merchant services, direct deposit of payroll, business credit cards, and check cashing services), interest rate swap arrangements, and foreign exchange services as any such products or services may be identified in Bank's various agreements related thereto (each, a "Bank Services Agreement").

"**Bank Services Agreement**" is defined in the definition of Bank Services.

"**Board**" is Borrower's board of directors.

"**Borrower**" is defined in the preamble hereof.

"**Borrower's Books**" are all Borrower's books and records including ledgers, federal and state tax returns, records regarding Borrower's assets or liabilities, the Collateral, business operations or financial condition, and all computer programs or storage or any equipment containing such information.

"**Borrowing Base**" is eighty-five percent (85.0%) of Borrower's Net Collectable Value, as determined by Bank from Borrower's most recent Borrowing Base Report (and as may subsequently be updated by Bank based upon information received by Bank including, without limitation, Accounts that are paid and/or billed following the date of the Borrowing Base Report); provided, however, that Bank has the right to decrease the foregoing percentage, upon notice to Borrower (the "Reduction Notice"), in its reasonable business judgment to mitigate the impact of events, conditions, contingencies, or risks which would reasonably be expected to adversely affect the Collateral or its value. Notwithstanding the terms of Section 2.4, any Overadvance caused directly and solely as a result of delivery by Bank of a Reduction Notice or an Eligible Account Change Notice shall not be due and payable until the day that is three (3) Business Days after delivery of such Reduction Notice or Eligible Account Change Notice (as applicable) by Bank, and further, no higher interest rate than the rate that is otherwise applicable under Section 2.5(a)(i) shall be imposed until such Overadvance becomes due and payable.

"**Borrowing Base Report**" is that certain report of the value of certain Collateral in the form specified by Bank to Borrower from time to time.

"**Borrowing Resolutions**" are, with respect to any Person, those resolutions adopted by such Person's board of directors (and, if required under the terms of such Person's Operating Documents, stockholders) and delivered by such Person to Bank approving the Loan Documents to which such Person is a party and the transactions contemplated

thereby, together with a certificate executed by its secretary on behalf of such Person certifying (a) such Person has the authority to execute, deliver, and perform its obligations under each of the Loan Documents to which it is a party, (b) that set forth as a part of or attached as an exhibit to such certificate is a true, correct, and complete copy of the resolutions then in full force and effect authorizing and ratifying the execution, delivery, and performance by such Person of the Loan Documents to which it is a party, (c) the name(s) of the Person(s) authorized to execute the Loan Documents, including making (and executing if applicable) any Credit Extension request, on behalf of such Person, together with a sample of the true signature(s) of such Person(s), and (d) that Bank may conclusively rely on such certificate unless and until such Person shall have delivered to Bank a further certificate canceling or amending such prior certificate.

"**Business Day**" is any day that is not a Saturday, Sunday or a day on which Bank is closed.

"**Cash Collateral Account**" is defined in Section 6.3(c).

"**Cash Equivalents**" means (a) marketable direct obligations issued or unconditionally guaranteed by the United States or any agency or any State thereof having maturities of not more than one (1) year from the date of acquisition; (b) commercial paper maturing no more than one (1) year after its creation and having a rating of at least "investment grade" or "A" by Moody's or any successor rating agency; (c) Bank's certificates of deposit issued maturing no more than one (1) year after issue; and (d) money market funds at least ninety-five percent (95%) of the assets of which constitute Cash Equivalents of the kinds described in clauses (a) through (c) of this definition.

"**Change in Control**" means (a) at any time, any "person" or "group" (as such terms are used in Sections 13(d) and 14(d) of the Exchange Act), shall become, or obtain rights (whether by means of warrants, options or otherwise) to become, the "beneficial owner" (as defined in Rules 13(d)-3 and 13(d)-5 under the Exchange Act), directly or indirectly, of thirty-five percent (35.0%) or more of the ordinary voting power for the election of directors of Borrower (determined on a fully diluted basis) other than by the sale of Borrower's equity securities in a public offering or to venture capital or private equity investors so long as Borrower identifies to Bank the venture capital or private equity investors at least seven (7) Business Days prior to the closing of the transaction and provides to Bank a description of the material terms of the transaction; or (b) at any time, Borrower shall cease to own and control, of record and beneficially, directly or indirectly, one hundred percent (100.0%) of each class of outstanding capital stock of each subsidiary of Borrower free and clear of all Liens (except Liens created or otherwise permitted by this Agreement).

"**Claims**" is defined in Section 12.3.

"**Client Billed Accounts**" are a group of payers including, but not limited to hospitals, providers, healthcare institutions and other commercial payers, but excludes government payers, commercial health plans and billed Accounts where the patient is responsible for 100% of the total obligations, with no portion covered by insurance.

"**Code**" is the Uniform Commercial Code, as the same may, from time to time, be enacted and in effect in the State of California; provided, that, to the extent that the Code is used to define any term herein or in any Loan Document and such term is defined differently in different Articles or Divisions of the Code, the definition of such term contained in Article or Division 9 shall govern; provided further, that in the event that, by reason of mandatory provisions of law, any or all of the attachment, perfection, or priority of, or remedies with respect to, Bank's Lien on any Collateral is governed by the Uniform Commercial Code in effect in a jurisdiction other than the State of California, the term "Code" shall mean the Uniform Commercial Code as enacted and in effect in such other jurisdiction solely for purposes of the provisions thereof relating to such attachment, perfection, priority, or remedies and for purposes of definitions relating to such provisions.

"**Collateral**" is any and all properties, rights and assets of Borrower described on Exhibit A.

"**Collateral Account**" is any Deposit Account, Securities Account, or Commodity Account.

"**Commodity Account**" is any "commodity account" as defined in the Code with such additions to such term as may hereafter be made.

"**Compliance Certificate**" is that certain certificate in the form attached hereto as Exhibit B.

"**Contingent Obligation**" is, for any Person, any direct or indirect liability, contingent or not, of that Person for (a) any indebtedness, lease, dividend, letter of credit or other obligation of another such as an obligation, in each case, directly or indirectly guaranteed, endorsed, co made, discounted or sold with recourse by that Person, or for which that Person is directly or indirectly liable; (b) any obligations for undrawn letters of credit for the account of that Person; and (c) all obligations from any interest rate, currency or commodity swap agreement, interest rate cap or collar agreement, or other agreement or arrangement designated to protect a Person against fluctuation in interest rates, currency exchange rates or commodity prices; but "Contingent Obligation" does not include endorsements in the ordinary course of business. The amount of a Contingent Obligation is the stated or determined amount of the primary obligation for which the Contingent Obligation is made or, if not determinable, the maximum reasonably anticipated liability for it determined by the Person in good faith; but the amount may not exceed the maximum of the obligations under any guarantee or other support arrangement.

"**Control Agreement**" is any control agreement entered into among the depository institution at which Borrower maintains a Deposit Account or the securities intermediary or commodity intermediary at which Borrower maintains a Securities Account or a Commodity Account, Borrower, and Bank pursuant to which Bank obtains control (within the meaning of the Code) over such Deposit Account, Securities Account, or Commodity Account.

"**Copyrights**" are any and all copyright rights, copyright applications, copyright registrations and like protections in each work of authorship and derivative work thereof, whether published or unpublished and whether or not the same also constitutes a trade secret.

"**Credit Extension**" is any Advance, any Overadvance, the Term Loan Advance, or any other extension of credit by Bank for Borrower's benefit.

"**Currency**" is coined money and such other banknotes or other paper money as are authorized by law and circulate as a medium of exchange.

"**Default Rate**" is defined in Section 2.5(b).

"**Deferred Revenue**" is all amounts received or invoiced in advance of performance under contracts and not yet recognized as revenue.

"**Deposit Account**" is any "**deposit account**" as defined in the Code with such additions to such term as may hereafter be made.

"**Designated Deposit Account**" is the account number ending [_____] (last three digits) maintained by Borrower with Bank (provided, however, if no such account number is included, then the Designated Deposit Account shall be any deposit account of Borrower maintained with Bank as chosen by Bank).

"**Dollars**," "**dollars**" or use of the sign "$" means only lawful money of the United States and not any other currency, regardless of whether that currency uses the "$" sign to denote its currency or may be readily converted into lawful money of the United States.

"**Dollar Equivalent**" is, at any time, (a) with respect to any amount denominated in Dollars, such amount, and (b) with respect to any amount denominated in a Foreign Currency, the equivalent amount therefor in Dollars as determined by Bank at such time on the basis of the then-prevailing rate of exchange in San Francisco, California, for sales of the Foreign Currency for transfer to the country issuing such Foreign Currency.

"**Domestic Subsidiary**" means a Subsidiary organized under the laws of the United States or any state or territory thereof or the District of Columbia.

"**Effective Date**" is defined in the preamble hereof.

"**Eligible Account Change Notice**" is defined in the definition of "Eligible Accounts" hereunder.

"**Eligible Accounts**" means Accounts owing to Borrower, assessed at the Eligible Account Payor level on Borrower's general ledger, which arise in the ordinary course of Borrower's business that meet all Borrower's representations and warranties in Section 5.3, that have been, if required by Bank, confirmed in accordance with Section 6.3(f) of this Agreement, and are due and owing from Eligible Account Payor deemed creditworthy by Bank in its good faith business judgment. Bank reserves the right at any time after the Effective Date, upon prior written notice to Borrower (an "Eligible Account Change Notice"), to adjust any of the criteria set forth below and to establish new criteria in its good faith business judgment. Unless Bank otherwise agrees in writing, Eligible Accounts shall not include:

(a) Accounts (i) for which the Eligible Account Payor is Borrower's Affiliate, officer, employee, investor, or agent, or (ii) that are intercompany Accounts;

(b) Accounts that the Eligible Account Payor has not paid within ninety (90) days of the end of the month in which the test result giving rise to such Account is delivered regardless of invoice payment period terms;

(c) Accounts with credit balances over ninety (90) days from the end of the month in which the test result giving rise to such Account is delivered;

(d) Accounts owing from an Eligible Account Payor if sixty-five percent (65%) or more of the Accounts owing from such Eligible Account Payor have not been paid within ninety (90) days of the end of the month in which the test result giving rise to such Account is delivered;

(e) Accounts owing from an Eligible Account Payor (i) which does not have at least sixty-five percent (65.0%) of its payors having their principal place of business in the United States or (ii) whose billing address (as set forth in the applicable invoice for such Account) is not in the United States;

(f) Accounts billed from and/or payable to Borrower outside of the United States (sometimes called foreign invoiced accounts);

(g) Accounts in which Bank does not have a first priority, perfected security interest under all applicable laws;

(h) Accounts billed and/or payable in a Currency other than Dollars;

(i) Accounts owing from an Eligible Account Payor to the extent that Borrower is indebted or obligated in any manner to the Eligible Account Payor (as creditor, lessor, supplier or otherwise - sometimes called "contra" accounts, accounts payable, customer deposits or credit accounts);

(j) Accounts with or in respect of accruals for marketing allowances, incentive rebates, price protection, cooperative advertising and other similar marketing credits, unless otherwise approved by Bank in writing;

(k) Accounts owing from an Eligible Account Payor which is a United States government entity or any department, agency, or instrumentality thereof unless Borrower has assigned its payment rights to Bank and the assignment has been acknowledged under the Federal Assignment of Claims Act of 1940, as amended, except for Accounts for which the Eligible Account Payor is Medicare;

(l) Accounts with customer deposits and/or with respect to which Borrower has received an upfront payment, to the extent of such customer deposit and/or upfront payment;

(m) Accounts for demonstration or promotional equipment, or in which goods are consigned, or sold on a "sale guaranteed", "sale or return", "sale on approval", or other terms if Eligible Account Payor's payment may be conditional;

(n) Accounts owing from an Eligible Account Payor where goods or services have not yet been rendered to the Eligible Account Payor (sometimes called memo billings or pre-billings);

(o) Accounts subject to contractual arrangements between Borrower and an Eligible Account Payor where payments shall be scheduled or due according to completion or fulfillment requirements (sometimes called contracts accounts receivable, progress billings, milestone billings, or fulfillment contracts);

(p) Accounts owing from an Eligible Account Payor the amount of which may be subject to withholding based on the Eligible Account Payor's satisfaction of Borrower's complete performance (but only to the extent of the amount withheld; sometimes called retainage billings);

(q) Accounts subject to trust provisions, subrogation rights of a bonding company, or a statutory trust;

(r) Accounts owing from an Eligible Account Payor that has been invoiced for goods that have not been shipped to the Eligible Account Payor unless Bank, Borrower, and the Eligible Account Payor have entered into an agreement acceptable to Bank wherein the Eligible Account Payor acknowledges that (i) it has title to and has ownership of the goods wherever located, (ii) a bona fide sale of the goods has occurred, and (iii) it owes payment for such goods in accordance with invoices from Borrower (sometimes called "bill and hold" accounts);

(s) Accounts for which the Eligible Account Payor has not been invoiced;

(t) Accounts that represent non-trade receivables or that are derived by means other than in the ordinary course of Borrower's business;

(u) Accounts for which Borrower has permitted Eligible Account Payor's payment to extend beyond ninety (90) days (including Accounts with a due date that is more than ninety (90) days from the end of the month in which the test result giving rise to such Account is delivered);

(v) Accounts in which the Eligible Account Payor disputes liability or makes any claim (but only up to the disputed or claimed amount), or if the Eligible Account Payor is subject to an Insolvency Proceeding (whether voluntary or involuntary), or becomes insolvent, or goes out of business;

(w) Accounts owing from an Eligible Account Payor with respect to which Borrower has received Deferred Revenue (but only to the extent of such Deferred Revenue);

(x) Accounts owing from any single Eligible Account Payor, whose total obligations to Borrower exceed thirty-three and 33/100 of one percent (33.33%) of all of Borrower's Accounts, but only for the amounts that exceed that percentage, unless Bank approves a greater percentage in writing; and

(y) Accounts for which Bank in its good faith business judgment determines collection to be doubtful, including, without limitation, accounts represented by "refreshed" or "recycled" invoices.

"**Eligible Account Payor**" is a group of commercial, government or private payer Account Debtors classified into seven (7) groupings, including Aetna, United Healthcare, Cigna, Blues plans, Medicare, Client Billed Accounts, Everyone Else, and others as approved by Bank in writing on a case-by-case basis; however, for the avoidance of doubt, Eligible Account Payor excludes any billed Accounts where the patient is responsible for 100% of the total obligations, with no portion covered by insurance.

"**Equipment**" is all "**equipment**" as defined in the Code with such additions to such term as may hereafter be made, and includes without limitation all machinery, fixtures, goods, vehicles (including motor vehicles and trailers), and any interest in any of the foregoing.

"**Everyone Else**" means all payers other than Aetna, United Healthcare, Cigna, Blues plans, Medicare and Client Billed Accounts; excluding however, any Accounts where the patient is responsible for 100% of the total obligations, with no portion covered by insurance.

"**ERISA**" is the Employee Retirement Income Security Act of 1974, and its regulations.

"**Event of Default**" is defined in Section 8.

"**Exchange Act**" is the Securities Exchange Act of 1934, as amended.

"**Excluded Taxes**" means any of the following Taxes imposed on or with respect to Bank (or any of its successors or assigns with respect to Advances) or required to be withheld or deducted from a payment to Bank (or any of its successors or assigns with respect to Advances), (a) Taxes imposed on or measured by net income (however denominated), franchise Taxes, and branch profits Taxes, in each case, (i) imposed as a result of Bank (or any of its successors or assigns with respect to Advances) being organized under the laws of, or having its principal office or its applicable lending office located in, the jurisdiction imposing such Tax (or any political subdivision thereof) or (ii) that are Other Connection Taxes, (b) Taxes attributable to Bank's (or any of its successors or assigns with respect to Advances) failure to comply with Section 12.17 and (c) any U.S. federal withholding Taxes imposed under FATCA.

"**FATCA**" means Sections 1471 through 1474 of the Internal Revenue Code, as of the Effective Date (or any amended or successor version that is substantively comparable and not materially more onerous to comply with), any current or future regulations or official interpretations thereof, any agreement entered into pursuant to Section 1471(b)(1) of the Internal Revenue Code, any intergovernmental agreement entered into in connection with the implementation of such sections of the Internal Revenue Code and any fiscal or regulatory legislation, rules or practices adopted pursuant to, or official interpretations implementing such, intergovernmental agreements.

"**Final Payment**" is a payment (in addition to and not a substitution for the regular monthly payments of principal plus accrued interest) due on the earliest to occur of (a) the Term Loan Maturity Date, (b) the repayment of the Term Loan Advance in full, (c) the repayment of the Term Loan Advance in full pursuant to Section 2.3(d) or 2.3(e), or (d) the Term Loan Maturity Date, in an amount equal to One Million One Hundred Eighty-Seven Thousand Five Hundred Dollars ($1,187,500.00).

"**Foreign Currency**" means lawful money of a country other than the United States.

"**Foreign Subsidiary**" means any Subsidiary which is not a Domestic Subsidiary.

"**Funding Date**" is any date on which a Credit Extension is made to or for the account of Borrower which shall be a Business Day.

"**FX Contract**" is any foreign exchange contract by and between Borrower and Bank under which Borrower commits to purchase from or sell to Bank a specific amount of Foreign Currency on a specified date.

"**GAAP**" is generally accepted accounting principles set forth in the opinions and pronouncements of the Accounting Principles Board of the American Institute of Certified Public Accountants and statements and pronouncements of the Financial Accounting Standards Board or in such other statements by such other Person as may be approved by a significant segment of the accounting profession, which are applicable to the circumstances as of the date of determination.

"**General Intangibles**" is all "general intangibles" as defined in the Code in effect on the date hereof with such additions to such term as may hereafter be made, and includes without limitation, all Intellectual Property, claims,

income and other tax refunds, security and other deposits, payment intangibles, contract rights, options to purchase or sell real or personal property, rights in all litigation presently or hereafter pending (whether in contract, tort or otherwise), insurance policies (including without limitation key man, property damage, and business interruption insurance), payments of insurance and rights to payment of any kind.

"**Government Accounts**" is defined in Section 6.8(a).

"**Governmental Approval**" is any consent, authorization, approval, order, license, franchise, permit, certificate, accreditation, registration, filing or notice, of, issued by, from or to, or other act by or in respect of, any Governmental Authority.

"**Governmental Authority**" is any nation or government, any state or other political subdivision thereof, any agency, authority, instrumentality, regulatory body, court, central bank or other entity exercising executive, legislative, judicial, taxing, regulatory or administrative functions of or pertaining to government, any securities exchange and any self-regulatory organization.

"**Guarantor**" is any Person providing a Guaranty in favor of Bank.

"**Guaranty**" is any guarantee of all or any part of the Obligations, as the same may from time to time be amended, restated, modified or otherwise supplemented.

"**Indebtedness**" is (a) indebtedness for borrowed money or the deferred price of property or services, such as reimbursement and other obligations for surety bonds and letters of credit, (b) obligations evidenced by notes, bonds, debentures or similar instruments, (c) capital lease obligations (as such term is understood under GAAP as of the Effective Date), and (d) Contingent Obligations.

"**Indemnified Person**" is defined in Section 12.3.

"**Indemnified Tax**" means (a) Taxes, other than Excluded Taxes, imposed on or with respect to any payment made by or on account of any obligation of Borrower under any Loan Document and (b) to the extent not otherwise described in (a), Other Taxes.

"**Initial Audit**" is Bank's inspection of Borrower's Accounts, the Collateral, and Borrower's Books, with results satisfactory to Bank in its sole and absolute discretion.

"**Insolvency Proceeding**" is any proceeding by or against any Person under the United States Bankruptcy Code, or any other bankruptcy or insolvency law, including assignments for the benefit of creditors, compositions, extensions generally with its creditors, or proceedings seeking reorganization, arrangement, or other relief.

"**Intellectual Property**" means, with respect to any Person, all of such Person's right, title, and interest in and to the following:

(a) its Copyrights, Trademarks and Patents;

(b) any and all trade secrets and trade secret rights, including, without limitation, any rights to unpatented inventions, know-how and operating manuals;

(c) any and all source code;

(d) any and all design rights which may be available to such Person;

(e) any and all claims for damages by way of past, present and future infringement of any of the foregoing, with the right, but not the obligation, to sue for and collect such damages for said use or infringement of the Intellectual Property rights identified above; and

(f) all amendments, renewals and extensions of any of the Copyrights, Trademarks or Patents.

"**Internal Revenue Code**" is the Internal Revenue Code of 1986, as amended.

"**Inventory**" is all "**inventory**" as defined in the Code in effect on the date hereof with such additions to such term as may hereafter be made, and includes without limitation all merchandise, raw materials, parts, supplies, packing and shipping materials, work in process and finished products, including without limitation such inventory as is temporarily out of Borrower's custody or possession or in transit and including any returned goods and any documents of title representing any of the above.

"**Investment**" is any beneficial ownership interest in any Person (including stock, partnership interest or other securities), and any loan, advance or capital contribution to any Person.

"**ISDA Master Agreement**" means, as modified or supplemented from time to time, the 1992 or 2002 ISDA Master Agreement and related schedule thereto, as published by the International Swaps and Derivatives Association, Inc., as supplemented by any credit support annex and confirmation confirming any transaction thereunder.

"**Key Person**" is each of Borrower's Chief Executive Officer and Chief Financial Officer.

"**Letter of Credit**" is a standby or commercial letter of credit issued by Bank upon request of Borrower based upon an application, guarantee, indemnity, or similar agreement.

"**Lien**" is a claim, mortgage, deed of trust, levy, charge, pledge, security interest or other encumbrance of any kind, whether voluntarily incurred or arising by operation of law or otherwise against any property.

"**Liquidity**" is, at any time, the sum of (a) the aggregate amount of unrestricted and unencumbered cash and Cash Equivalents of Borrower maintained with Bank and Bank Affiliates, plus (b) the Availability Amount.

"**Loan Documents**" are, collectively, this Agreement and any schedules, exhibits, certificates, notices, and any other documents related to this Agreement, the Perfection Certificate, any Control Agreement, any Bank Services Agreement, any subordination agreement, any note, or notes or guaranties executed by Borrower or any Guarantor, and any other present or future agreement by Borrower and/or any Guarantor with or for the benefit of Bank, all as amended, restated, or otherwise modified.

"**Loan Obligations**" are Borrower's obligations to pay when due any debts, principal, interest, fees, Bank Expenses, the Final Payment, the Termination Fee, the Prepayment Fee, the Anniversary Fees and other amounts Borrower owes Bank now or later, whether under this Agreement, the other Loan Documents, or otherwise, including, without limitation, all obligations relating to Bank Services and interest accruing after Insolvency Proceedings begin and debts, liabilities, or obligations of Borrower assigned to Bank, and to perform Borrower's duties under the Loan Documents; provided, however, that the Loan Obligations shall not include the Secured Swap Obligations.

"**Material Adverse Change**" is (a) a material adverse change in the perfection or priority of Bank's Lien in the Collateral or in the value of such Collateral; (b) a material adverse change in the business, operations, or financial condition of Borrower; or (c) a material adverse change of the prospect of repayment of any portion of the Obligations.

"**Net Collectable Value**" is, assessed in total at the Eligible Account Payor level on Borrower's general ledger, the value of Borrower's unpaid Eligible Accounts, minus bad debt allowances, contra allowances and other Accounts that are not Eligible Accounts, as determined by Bank in its reasonable discretion.

"**Obligations**" means the Loan Obligations and the Secured Swap Obligations.

"**Operating Documents**" are, for any Person, such Person's formation documents, as certified by the Secretary of State (or equivalent agency) of such Person's jurisdiction of organization on a date that is no earlier than thirty (30)

days prior to the Effective Date, and, (a) if such Person is a corporation, its bylaws in current form, (b) if such Person is a limited liability company, its limited liability company agreement (or similar agreement), and (c) if such Person is a partnership, its partnership agreement (or similar agreement), each of the foregoing with all current

"**Other Connection Taxes**" are Taxes imposed as a result of a present or former connection between Bank (or any of its successors or assigns with respect to Advances) and the jurisdiction imposing such Tax (other than connections arising from Bank (or any of its successors or assigns with respect to Advances) having executed, delivered, become a party to, performed its obligations under, received payments under, received or perfected a security interest under, engaged in any other transaction pursuant to or enforced any Loan Document, or sold or assigned an interest in any Advance or Loan Document).

"**Other Taxes**" means all present or future stamp, court or documentary, intangible, recording, filing or similar Taxes that arise from any payment made under, from the execution, delivery, performance, enforcement or registration of, from the receipt or perfection of a security interest under, or otherwise with respect to, any Loan Document, except any such Taxes that are Other Connection Taxes imposed with respect to an assignment.

"**Overadvance**" is defined in Section 2.4.

"**Patents**" means all patents, patent applications and like protections including without limitation improvements, divisions, continuations, renewals, reissues, extensions and continuations-in-part of the same.

"**Payment/Advance Form**" is that certain form in the form attached hereto as Exhibit C.

"**Payment Date**" is (a) with respect to the Term Loan Advance, the first (1st) calendar day of each month and (b) with respect to Advances, the last calendar day of each month.

"**Perfection Certificate**" is defined in Section 5.1.

"**Permitted Acquisition**" means a transaction whereby Borrower acquires, or permits any of its Subsidiaries to acquire, all or substantially all of the capital stock or property of another Person, which satisfies each of the following conditions:

(a) a majority of the assets involved in such transaction are located in the United States and the party or parties being acquired is in the same or a substantially similar line of business as Borrower;

(b) no Event of Default has occurred and is continuing or would exist after giving effect to the transaction and Bank has received reasonably satisfactory evidence that Borrower is in compliance with all terms and conditions of this Agreement (and that it will be in compliance after giving effect to the transaction);

(c) the acquisition is approved by the board of directors (or equivalent control group) of all parties to the transaction;

(d) any cash consideration paid or to be paid in connection with such acquisition is limited to cash that Borrower has received in respect of an equity investment in Borrower or Subordinated Debt so long as a purpose of such equity investment or Subordinated Debt was to fund acquisitions, or to fund such acquisition, in an aggregate amount for all such transactions during the term of this Agreement not to exceed One Hundred Fifty Million Dollars ($150,000,000.00);

(e) in the case of any acquisition involving consideration in excess of Two Million Dollars ($2,000,000.00) or provided that the consideration for all Permitted Acquisitions has exceeded (or will exceed as a result of such proposed acquisition) Five Million Dollars ($5,000,000.00) in the aggregate, Borrower provides Bank (i) written notice of the transaction at least twenty (20) days before the closing of the transaction (or, if twenty (20) days' notice is not practicable, such lesser period as is reasonably practicable, but in any event at least ten (10) days' prior), and (ii) drafts of the acquisition agreement and other material documents relative to the contemplated transaction

and such other financial information, financial analysis, documentation or other information relating to such transaction as Bank shall reasonably request at least twenty (20) days before the closing of the transaction (or, if twenty (20) days' notice is not practicable, such lesser period as is reasonably practicable, but in any event at least ten (10) days' prior) and, following the closing of the acquisition, copies of the executed acquisition agreement and other material documents;

(f) in the case of any acquisition involving consideration in excess of Two Million Dollars ($2,000,000.00) or provided that the consideration for all Permitted Acquisitions has exceeded (or will exceed as a result of such proposed acquisition) Five Million Dollars ($5,000,000.00) in the aggregate, Borrower provides Bank, at least twenty (20) days before the closing of the contemplated transaction (or, if twenty (20) days' notice is not practicable, such lesser period as is reasonably practicable, but in any event at least ten (10) days' prior), written confirmation, supported by reasonably detailed calculations, that on a pro forma basis (after giving effect to such transaction) Borrower is projected to be in compliance with each of the financial covenants in Section 6.9 for the one (1) year period ending after the proposed date of consummation of such contemplated transaction;

(g) Borrower is a surviving legal entity after completion of the contemplated transaction;

(h) the contemplated transaction is consensual and non-hostile;

(i) no Indebtedness will be incurred, assumed, or would exist with respect to Borrower or its Subsidiaries as a result of the contemplated transaction, other than Permitted Indebtedness, and no Liens will be incurred, assumed, or would exist with respect to the assets of Borrower or its Subsidiaries as a result of the contemplated transaction, other than Permitted Liens;

(j) any Person whose capital stock is acquired or any Subsidiary that acquires assets in such contemplated transaction shall, within sixty (60) days of the consummation of the transaction, become a co-borrower or guarantor (as determined by Bank in its sole discretion) hereunder and shall grant a first priority Lien in all of its assets to Bank, all on documentation reasonably acceptable to Bank in its sole discretion;

(k) Borrower has provided evidence satisfactory to Bank in its sole discretion, that Borrower has cash and Cash Equivalents as of the date of such acquisition equal to at least the amount of cash projected to be used in Borrower's consolidated operations and to fund capital expenditures for the immediately following twelve (12) month period, based upon pro forma projections approved by the Board or satisfactory to Bank in its sole discretion; and

(l) in the case of any acquisition involving consideration in excess of Two Million Dollars ($2,000,000.00) or provided that the consideration for all Permitted Acquisitions has exceeded (or will exceed as a result of such proposed acquisition) Five Million Dollars ($5,000,000.00) in the aggregate, Borrower shall have delivered to the Bank, at least five (5) Business Days prior to the date on which any such acquisition is to be consummated (or such later date as is agreed by Bank in its sole discretion), a certificate of a Responsible Officer of Borrower, in form and substance reasonably satisfactory to Bank, certifying that all of the requirements set forth in this definition have been satisfied or will be satisfied on or prior to the consummation of such purchase or other acquisition.

"**Permitted Indebtedness**" is:

(a) Borrower's Indebtedness to Bank under this Agreement and the other Loan Documents;

(b) Indebtedness existing on the Effective Date which is shown on the Perfection Certificate;

(c) Subordinated Debt;

(d) unsecured Indebtedness to trade creditors incurred in the ordinary course of business;

(e) Indebtedness incurred as a result of endorsing negotiable instruments received in the ordinary course of business;

(f) Indebtedness secured by Liens permitted under clauses (a) and (c) of the definition of "Permitted Liens" hereunder;

(g) Indebtedness of any Subsidiary with respect to obligations of Borrower (provided that the primary obligations are not prohibited hereby), and Indebtedness of any Subsidiary to Borrower;

(h) unsecured Indebtedness which by its terms is convertible into equity securities of Borrower, with Bank's prior written consent (which may be granted or withheld in Bank's good faith business discretion; and

(i) extensions, refinancings, modifications, amendments and restatements of any items of Permitted Indebtedness (a) through (h) above, provided that the principal amount thereof is not increased or the terms thereof are not modified to impose more burdensome terms upon Borrower or its Subsidiary, as the case may be.

"**Permitted Investments**" are:

(a) Investments (including, without limitation, Subsidiaries) existing on the Effective Date which are shown on the Perfection Certificate;

(b) (i) Investments consisting of Cash Equivalents and (ii) any Investments permitted by Borrower's investment policy, as amended from time to time, provided that such investment policy (and any such amendment thereto) has been approved in writing by Bank;

(c) Investments consisting of the endorsement of negotiable instruments for deposit or collection or similar transactions in the ordinary course of Borrower;

(d) Investments consisting of deposit accounts (but only to the extent that Borrower is permitted to maintain such accounts pursuant to Section 6.8 of this Agreement) in which Bank has a first priority perfected security interest;

(e) Investments accepted in connection with Transfers permitted by Section 7.1;

(f) Investments consisting of the creation of a Subsidiary for the purpose of consummating a Permitted Acquisition, which is otherwise a Permitted Investment;

(g) Investments (i) by Borrower in Subsidiaries for purposes of forming or establishing such Subsidiaries, not to exceed Five Hundred Thousand Dollars ($500,000.00) in the aggregate in any fiscal year, (ii) by Subsidiaries (other than a Borrower) in other Subsidiaries or in Borrower and (iii) by Borrower or any Subsidiary which is a Borrower or a Secured Guarantor in any Subsidiary which is a Borrower or Secured Guarantor, including with respect to a Permitted Acquisition;

(h) Investments consisting of travel advances and employee relocation loans and other employee loans and advances in the ordinary course of business either (A) approved by the Board or (B) in an aggregate amount not to exceed Two Hundred Fifty Thousand Dollars ($250,000.00) outstanding at any time;

(i) Investments (including debt obligations) received in connection with the bankruptcy or reorganization of customers or suppliers and in settlement of delinquent obligations of, and other disputes with, customers or suppliers arising in the ordinary course of business;

(j) Investments consisting of notes receivable of, or prepaid royalties and other credit extensions, to customers and suppliers who are not Affiliates, in the ordinary course of business; provided that this paragraph (j) shall not apply to Investments of Borrower in any Subsidiary;

(k) Investments that constitute a Permitted Acquisition;

(l) joint ventures or strategic alliances in the ordinary course of Borrower's business consisting of the non-exclusive licensing of technology, the development of technology or the providing of technical support, provided that any cash investments by Borrower do not exceed One Million Dollars ($1,000,000.00) in the aggregate in any fiscal year; and

(m) other Investments not otherwise permitted by Section 7.7 not exceeding Two Hundred Million Dollars ($2,000,000.00) in the aggregate outstanding at any time.

"**Permitted Liens**" are:

(a) Liens existing on the Effective Date which are shown on the Perfection Certificate or arising under this Agreement or the other Loan Documents;

(b) Liens for taxes, fees, assessments or other government charges or levies, either (i) not due and payable or (ii) being contested in good faith and for which Borrower maintains adequate reserves on Borrower's Books, provided that no notice of any such Lien has been filed or recorded under the Internal Revenue Code of 1986, as amended, and the Treasury Regulations adopted thereunder;

(c) purchase money Liens and capital leases (i) on Equipment acquired or held by Borrower incurred for financing the acquisition of the Equipment securing no more than Five Million Dollars ($5,000,000.00) in the aggregate amount outstanding, or (ii) existing on Equipment when acquired, if the Lien is confined to the property and improvements and the proceeds of the Equipment;

(d) Liens incurred in the extension, renewal or refinancing of the Indebtedness secured by Liens described in (a) through (c), but any extension, renewal or replacement Lien must be limited to the property encumbered by the existing Lien and the principal amount of the indebtedness may not increase;

(e) Liens of carriers, mechanics, warehousemen, suppliers, or other Persons that are possessory in nature arising in the ordinary course of business so long as such Liens attach only to Inventory, securing liabilities in the aggregate amount not to exceed One Million Dollars ($1,000,000.00) and which are not delinquent or remain payable without penalty or which are being contested in good faith and by appropriate proceedings which proceedings have the effect of preventing the forfeiture or sale of the property subject thereto;

(f) Liens to secure payment of workers' compensation, employment insurance, old-age pensions, social security and other like obligations incurred in the ordinary course of business (other than Liens imposed by ERISA);

(g) leases or subleases of real property granted in the ordinary course of Borrower's business (or, if referring to another Person, in the ordinary course of such Person's business), and leases, subleases, non-exclusive licenses or sublicenses of personal property (other than Intellectual Property) granted in the ordinary course of Borrower's business (or, if referring to another Person, in the ordinary course of such Person's business), if the leases, subleases, licenses and sublicenses do not prohibit granting Bank a security interest therein;

(h) non-exclusive licenses of Intellectual Property granted to third parties in the ordinary course of business;

(i) Liens arising from attachments or judgments, orders, or decrees in circumstances not constituting an Event of Default under Sections 8.4 and 8.7;

(j) Liens in favor of other financial institutions arising in connection with Borrower's deposit and/or securities accounts held at such institutions, provided that (i) Bank has a first priority perfected

security interest in the amounts held in such deposit and/or securities accounts (ii) such accounts are permitted to be maintained pursuant to Section 6.8 of this Agreement; and

(k) Liens to secure the performance of bids, trade contracts (other than for borrowed money), contracts for the purchase of property permitted hereunder, statutory obligations, surety and appeal bonds, performance bonds and other obligations of a like nature, in each case, incurred in the ordinary course of business not representing an obligation for borrowed money in an amount not to exceed Two Million Dollars ($2,000,000.00).

"**Person**" is any individual, sole proprietorship, partnership, limited liability company, joint venture, company, trust, unincorporated organization, association, corporation, institution, public benefit corporation, firm, joint stock company, estate, entity or government agency.

"**Prepayment Fee**" shall be an additional fee payable to Bank, for a repayment of the Term Loan Advance in full prior to the Term Loan Maturity Date, in an amount equal to:

(a) for a prepayment made on or prior to the first anniversary of the Effective Date, Seven Hundred Fifty Thousand Dollars ($750,000.00);

(b) for a prepayment made after the first anniversary of the Effective Date but on or prior to the second anniversary of the Effective Date, Five Hundred Thousand Dollars ($500,000.00); and

(c) for a prepayment made after the second anniversary of the Effective Date, Two Hundred Fifty Thousand Dollars ($250,000.00).

Notwithstanding the foregoing, Bank agrees to waive the Prepayment Fee and no Prepayment Fee is due if both (a) Bank closes on a refinance and re-documentation of the Term Loan Advance (including pursuant to credit facility provided by a syndicate in which Bank is administrative agent, it being understood that Bank has no obligation to provide any refinancing and may do so in its sole and absolute discretion) on or prior to the Term Loan Maturity Date and (b) no Event of Default has occurred.

"**Rate Contracts**" mean any swap agreement (as such term is defined in Section 101 of the United States Bankruptcy Code) and all other agreements or documents now existing or hereafter entered into by Borrower that provide for an interest rate, credit, commodity or equity swap, cap, floor, collar, forward foreign exchange transaction (other than FX Contracts), currency swap, cross currency rate swap, currency option or any similar transaction, or any combination of, or option with respect to, these or similar transactions, for the purpose of hedging Borrower exposure to fluctuations in interest rates, currency exchange rates, loan, credit exchange, security, or commodity prices.

"**Reduction Notice**" is defined in the definition of "Borrowing Base" hereunder.

"**Registered Organization**" is any "registered organization" as defined in the Code with such additions to such term as may hereafter be made.

"**Requirement of Law**" is as to any Person, the organizational or governing documents of such Person, and any law (statutory or common), treaty, rule or regulation or determination of an arbitrator or a court or other Governmental Authority, in each case applicable to or binding upon such Person or any of its property or to which such Person or any of its property is subject.

"**Reserves**" means, as of any date of determination, such amounts as Bank may from time to time establish and revise in its reasonable judgment, upon notice to Borrower, reducing the amount of Advances and other financial accommodations which would otherwise be available to Borrower (a) to reflect events, conditions, contingencies or risks which, as determined by Bank in its good faith business judgment, do or may adversely affect (i) the Collateral or any other property which is security for the Obligations or its value (including without limitation any increase in delinquencies of Accounts), (ii) the assets, business or prospects of Borrower or any Guarantor, or (iii) the security

interests and other rights of Bank in the Collateral (including the enforceability, perfection and priority thereof); or (b) to reflect Bank's reasonable belief that any collateral report or financial information furnished by or on behalf of Borrower or any Guarantor to Bank is or may have been incomplete, inaccurate or misleading in any material respect; or (c) in respect of any state of facts which Bank reasonably determines constitutes an Event of Default or may, with notice or passage of time or both, constitute an Event of Default.

"**Responsible Officer**" is any of the Chief Executive Officer, President, Chief Financial Officer and Controller of Borrower.

"**Restricted License**" is any material license or other agreement with respect to which Borrower is the licensee (a) that prohibits or otherwise restricts Borrower from granting a security interest in Borrower's interest in such license or agreement or any other property, or (b) for which a default under or termination of could interfere with Bank's right to sell any Collateral.

"**Revolving Line**" is an aggregate principal amount equal to Ten Million Dollars ($10,000,000.00).

"**Revolving Line Maturity Date**" is the earliest to occur of (a) the Term Loan Maturity Date, (b) the acceleration of the Term Loan Advance, (c) the repayment of the Term Loan Advance in full, (d) the termination of this Agreement, or (e) October 1, 2022.

"**SEC**" shall mean the Securities and Exchange Commission, any successor thereto, and any analogous Governmental Authority.

"**Secured Guarantor**" is a Guarantor which has granted Bank a first-priority Lien in such assets of the Guarantor consistent with the description of the Collateral hereunder (as if the Collateral were deemed to pertain to such Guarantor), and has executed and delivered to Bank such agreements, certificates and other documents in connection with the foregoing as required by Bank.

"**Secured Rate Contract**" means any Rate Contract entered into in writing under an ISDA Master Agreement (a) between Borrower and a Secured Swap Provider, (b) has been provided or arranged by Bank or its Affiliate; and (c) if the Secured Swap Provider is not Bank or its Affiliate at the time of execution and delivery of such Rate Contract, Bank has acknowledged in writing such Rate Contract constitutes a "Secured Rate Contract" hereunder and Bank and such Secured Swap Provider have entered into an agency addendum to the ISDA Master Agreement.

"**Secured Swap Obligations**" are Borrower's obligations to pay when due any and all amounts owed to any Secured Swap Provider, now or later, under any Secured Rate Contract, and including interest accruing after Insolvency Proceedings begin and all debts, liabilities, or obligations of Borrower assigned to any Secured Swap Provider, including the obligation of each such entity to perform its duties under the Secured Rate Contracts.

"**Secured Swap Provider**" means (a) Bank or an Affiliate of Bank (or a Person who was Bank or an Affiliate of Bank at the time of execution and delivery of a Secured Rate Contract) who has entered into a Secured Rate Contract with Borrower, or (b) a Person with whom Borrower has entered into a Secured Rate Contract provided or arranged by Bank or an Affiliate of Bank, and any assignee thereof.

"**Securities Account**" is any "**securities account**" as defined in the Code with such additions to such term as may hereafter be made.

"**Specified Affiliate**" is any Person (a) more than ten percent (10.0%) of whose aggregate issued and outstanding equity or ownership securities or interests, voting, non-voting or both, are owned or held directly or indirectly, beneficially or of record, by Borrower, and/or (ii) whose equity or ownership securities or interests representing more than ten percent (10.0%) of such Person's total outstanding combined voting power are owned or held directly or indirectly, beneficially or of record, by Borrower.

"**Streamline Period**" is on and after the Effective Date, provided no Event of Default has occurred and is continuing, the period (a) commencing on the first day of the month following the day that Borrower provides to Bank a written report that Borrower has at all times during the immediately preceding calendar month maintained unrestricted and unencumbered cash and Cash Equivalents in accounts maintained with Bank and Bank's Affiliates, as determined by Bank in its sole discretion, of at least Ten Million Dollars ($10,000,000.00) (the "Threshold Amount"); and (b) terminating on the earlier to occur of (i) the occurrence of an Event of Default, or (ii) the first day thereafter in which Borrower fails to maintain the Threshold Amount, as determined by Bank in its sole discretion. Upon the termination of a Streamline Period, Borrower must maintain the Threshold Amount each consecutive day for two (2) consecutive months as determined by Bank in its sole discretion, prior to entering into a subsequent Streamline Period. Borrower shall give Bank prior written notice of Borrower's election to enter into any such Streamline Period, and each such Streamline Period shall commence on the first day of the monthly period following the date Bank determines, in its sole discretion, that the Threshold Amount has been achieved.

"**Subordinated Debt**" is indebtedness incurred by Borrower subordinated to all of Borrower's now or hereafter indebtedness to Bank (pursuant to a subordination, intercreditor, or other similar agreement in form and substance satisfactory to Bank in its good faith business judgment entered into between Bank and the other creditor), on terms acceptable to Bank in its good faith business judgment.

"**Subsidiary**" is, as to any Person, a corporation, partnership, limited liability company or other entity of which shares of stock or other ownership interests having ordinary voting power (other than stock or such other ownership interests having such power only by reason of the happening of a contingency) to elect a majority of the board of directors or other managers of such corporation, partnership or other entity are at the time owned, or the management of which is otherwise controlled, directly or indirectly through one or more intermediaries, or both, by such Person. Unless the context otherwise requires, each reference to a Subsidiary herein shall be a reference to a Subsidiary of Borrower.

"**Tax**" and "**Taxes**" means all present or future taxes, levies, imposts, duties, deductions, withholdings (including backup withholding), assessments, fees or other charges imposed by any Governmental Authority, including any interest, additions to tax or penalties applicable thereto.

"**Term Loan Advance**" is defined in Section 2.3 of this Agreement.

"**Term Loan Maturity Date**" is October 1, 2022.

"**Termination Fee**" is defined in Section 2.6(b).

"**Threshold Amount**" is defined in the definition of Streamline Period.

"**Trademarks**" means any trademark and servicemark rights, whether registered or not, applications to register and registrations of the same and like protections, and the entire goodwill of the business of Borrower connected with and symbolized by such trademarks.

"**Unpaid Amounts**" has the meaning given such term in the Secured Rate Contact.

"**Transfer**" is defined in Section 7.1.

"**Wells Fargo Account**" is defined in Section 3.1(b).

[Signature page follows.]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed as of the Effective Date.

BORROWER:
VERACTYE, INC.

By /s/ Bonnie Anderson
Name: Bonnie Anderson
Title: Chairman and Chief Executive Officer

BANK:
SILICON VALLEY BANK

By /s/ Shawn Parry
Name: Shawn Parry
Title: Director

EXHIBIT A - COLLATERAL DESCRIPTION

The Collateral consists of all of Borrower's right, title and interest in and to the following personal property:

All goods, Accounts (including health-care receivables), Equipment, Inventory, contract rights or rights to payment of money, leases, license agreements, franchise agreements, General Intangibles (except as provided below), commercial tort claims, documents, instruments (including any promissory notes), chattel paper (whether tangible or electronic), cash, deposit accounts, certificates of deposit, fixtures, letters of credit rights (whether or not the letter of credit is evidenced by a writing), securities, and all other investment property, supporting obligations, and financial assets, whether now owned or hereafter acquired, wherever located; and

all Borrower's Books relating to the foregoing, and any and all claims, rights and interests in any of the above and all substitutions for, additions, attachments, accessories, accessions and improvements to and replacements, products, proceeds and insurance proceeds of any or all of the foregoing.

Notwithstanding the foregoing, the Collateral does not include (a) with respect to stock in Foreign Subsidiaries, more than sixty-five percent (65.0%) of the presently existing and hereafter arising issued and outstanding shares of capital stock owned by Borrower of any Foreign Subsidiary which shares entitle the holder thereof to vote for directors or any other matter, (b) any interest of Borrower as a lessee or sublessee under a real property lease, (c) rights held under a license that are not assignable by their terms without the consent of the licensor thereof (but only to the extent such restriction on assignment is enforceable under applicable law), (d) any interest of Borrower as a lessee under an Equipment lease if Borrower is prohibited by the terms of such lease from granting a security interest in such lease or under which such an assignment or Lien would cause a default to occur under such lease; provided, however, that upon termination of such prohibition, such interest shall immediately become Collateral without any action by Borrower or Bank, (e) any Governmental Approvals issued by or from any Governmental Authority to the extent the grant of a security interest or Lien thereon is prohibited by such Governmental Approvals, provided that such Governmental Approvals shall immediately be deemed to be Collateral hereunder without any action by Borrower or Bank if such prohibition is ineffective or terminated, (f) Government Accounts, and (g) any Intellectual Property; provided, however, the Collateral shall include all Accounts and all proceeds of Intellectual Property. If a judicial authority (including a U.S. Bankruptcy Court) would hold that a security interest in the underlying Intellectual Property is necessary to have a security interest in such Accounts and such property that are proceeds of Intellectual Property, then the Collateral shall automatically, and effective as of the Effective Date, include the Intellectual Property to the extent necessary to permit perfection of Bank's security interest in such Accounts and such other property of Borrower that are proceeds of the Intellectual Property.

EXHIBIT B
COMPLIANCE CERTIFICATE

TO: SILICON VALLEY BANK Date: _____
FROM: VERACYTE, INC.

The undersigned authorized officer of VERACYTE, INC. ("**Borrower**") certifies that under the terms and conditions of the Loan and Security Agreement between Borrower and Bank (the "**Agreement**"), (1) Borrower is in complete compliance for the period ending _____ with all required covenants except as noted below, (2) there are no Events of Default, (3) all representations and warranties in the Agreement are true and correct in all material respects on this date except as noted below; provided, however, that such materiality qualifier shall not be applicable to any representations and warranties that already are qualified or modified by materiality in the text thereof; and provided, further that those representations and warranties expressly referring to a specific date shall be true, accurate and complete in all material respects as of such date, (4) Borrower, and each of its Subsidiaries, has timely filed all required tax returns and reports, and Borrower has timely paid all foreign, federal, state and local taxes, assessments, deposits and contributions owed by Borrower except as otherwise permitted pursuant to the terms of Section 5.9 of the Agreement, and (5) no Liens have been levied or claims made against Borrower or any of its Subsidiaries, if any, relating to unpaid employee payroll or benefits of which Borrower has not previously provided written notification to Bank. Attached are the required documents supporting the certification. The undersigned certifies that these are prepared in accordance with GAAP consistently applied from one period to the next except as explained in an accompanying letter or footnotes. The undersigned acknowledges that no borrowings may be requested at any time or date of determination that Borrower is not in compliance with any of the terms of the Agreement, and that compliance is determined not just at the date this certificate is delivered. Capitalized terms used but not otherwise defined herein shall have the meanings given them in the Agreement.

Please indicate compliance status by circling Yes/No under "Complies" column.

Reporting Covenants	**Required**	**Complies**
Quarterly Financial Statements (first 3 quarters)	Quarterly within 45 days	Yes No N/A
Quarterly Financial Statements (final quarter)	FYE within 90 days	Yes No N/A
Compliance Certificate (first 3 quarters)	Quarterly within 45 days	Yes No
Compliance Certificate (final quarter)	FYE within 90 days	Yes No N/A
10-Q, 10-K and 8-K	Within 5 days after filing with SEC	Yes No
A/R & A/P Agings	Monthly within 45 days, except for the foregoing shall not be required if there were no Advances outstanding during the applicable period through and including the date of this Compliance Certificate	Yes No N/A
Borrowing Base Reports	(i) with each request for an Advance, and (ii) monthly within 45 days, except for (ii) shall not be required if there were no Advances outstanding during the applicable period through and including the date of this Compliance Certificate	Yes No N/A
Board approved projections	FYE within 90 days and as amended/updated	Yes No

Financial Covenant	Required	Actual	Complies
Maintain as indicated (tested quarterly):			
Minimum Revenue (trailing twelve month)	$_____*	$_____	Yes No N/A
Liquidity**	≥ $40,000,000.00	$_____	Yes No N/A

** As set forth in Section 6.9.*
*** Tested only if Borrower is not in compliance with the Minimum Revenue covenant as set forth in Section 6.9.*

The following financial covenant analyses and information set forth in Schedule 1 attached hereto are true and accurate as of the date of this Certificate.

The following are the exceptions with respect to the certification above: (If no exceptions exist, state "No exceptions to note.")

VERACYTE, INC.

By: _____
Name: _____
Title: _____

BANK USE ONLY

Received by: _____
AUTHORIZED SIGNER

Date: _____

Verified: _____
AUTHORIZED SIGNER

Date: _____

Compliance Status: Yes No

Schedule 1 to Compliance Certificate

Financial Covenants of Borrower

In the event of a conflict between this Schedule and the Loan Agreement, the terms of the Loan Agreement shall govern.

Dated: _____

I. **Minimum Revenue** (trailing twelve month, tested quarterly) (Section 6.9)

Required: See chart below

Quarter ending (trailing 12 month period)	**Revenue**
December 31, 2017	$65,000,000.00
March 31, 2018	$64,000,000.00
June 30, 2018	$64,000,000.00
September 30, 2018	$65,000,000.00
December 31, 2018	$74,000,000.00
March 31, 2019	$75,000,000.00
June 30, 2019	$77,000,000.00
September 30, 2019	$79,000,000.00
December 31, 2019	$81,000,000.00
March 31, 2020	$85,000,000.00
June 30, 2020	$84,000,000.00
September 30, 2020	$86,000,000.00
December 31, 2020	$89,000,000.00
March 31, 2021	$91,000,000.00
June 30, 2021	$93,000,000.00
September 30, 2021	$95,000,000.00
December 31, 2021	$98,000,000.00
March 31, 2022	$100,000,000.00
June 30, 2022	$100,000,000.00
September 30, 2022	$100,000,000.00

See Section 6.9 for periods ending after December 31, 2019.

Actual:

A. Revenue $_

Is line A equal to or greater than _____*?

** As set forth in the chart above.*

No, not in compliance* __ Yes, in compliance _____ No, not in compliance, but not an Event of Default as Liquidity threshold applies as set forth below)*

* If Borrower checked either of these boxes, please complete the Liquidity calculation below

II. Liquidity (following noncompliance with the Minimum Revenue financial covenant until Borrower is back in compliance with such covenant)

Required: ≥ $40,000,000.00 as of each day after the last day of the quarter in which Borrower did not meet the Minimum Revenue financial covenant through and including the date on which Borrower is in compliance with the revenue covenant for a subsequent quarter

Actual:

A.	Aggregate amount of unrestricted and unencumbered cash and Cash Equivalents of Borrower maintained with Bank and Bank Affiliates	$_____
B.	Availability Amount	$_____
C.	Liquidity (Line A plus Line B)	$_____

Is line C equal to or greater than $40,000,000.00?

No, not in compliance __ Yes, in compliance _____ Not applicable

EXHIBIT C

LOAN PAYMENT/ADVANCE REQUEST FORM

DEADLINE FOR SAME DAY PROCESSING IS NOON PACIFIC TIME

Fax To: Date: _____

LOAN PAYMENT:

VERACYTE, INC.

From Account #_____ To Account #_____
(Deposit Account #) (Loan Account #)
Principal $_____ and/or Interest $_____

Authorized Signature:__ Phone Number: __
Print Name/Title: __

LOAN ADVANCE:

Complete *Outgoing Wire Request* section below if all or a portion of the funds from this loan advance are for an outgoing wire.

From Account #_____ To Account #_____
(Loan Account #) (Deposit Account #)

Amount of Term Loan Advance $_____

All Borrower's representations and warranties in the Loan and Security Agreement are true, correct and complete in all material respects on the date of the request for an advance; provided, however, that such materiality qualifier shall not be applicable to any representations and warranties that already are qualified or modified by materiality in the text thereof; and provided, further that those representations and warranties expressly referring to a specific date shall be true, accurate and complete in all material respects as of such date:

Authorized Signature:__ Phone Number: __
Print Name/Title: __

OUTGOING WIRE REQUEST:
Complete only if all or a portion of funds from the loan advance above is to be wired.
Deadline for same day processing is noon, Pacific Time

Beneficiary Name: _____ Amount of Wire: $__
Beneficiary Bank: _____ Account Number: __

City and State: __

Beneficiary Bank Transit (ABA) #: __ Beneficiary Bank Code (Swift, Sort, Chip, etc.): __
(For International Wire Only)

Intermediary Bank: __ Transit (ABA) #: __
For Further Credit to: __

Special Instruction: __

By signing below, I (we) acknowledge and agree that my (our) funds transfer request shall be processed in accordance with and subject to the terms and conditions set forth in the agreements(s) covering funds transfer service(s), which agreements(s) were previously received and executed by me (us).

Authorized Signature: _____ 2nd Signature (if required): _____
Print Name/Title: _____ Print Name/Title: _____
Telephone #: _____ Telephone #: _____

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Exhibit 10.20#

November 17, 2016

Keith Kennedy
6524 N 351h Road
Arlington, VA 22213

Dear Keith:

We're absolutely delighted to confirm our offer of employment as Veracyte's Chief Financial Officer. In this role, you will report directly to me. (You should note that the Company may modify job titles and reporting relationships from time to time as it deems necessary.) Your date of hire will be December 6, 2016. The following offer is subject to Board approval.

The terms of this offer are as follows:

1. You will receive a base salary of $400,000 per year ($16,666.67 per pay period}, less applicable taxes and withholdings, paid in accordance with Veracyte's established payroll schedule, presently semi-monthly.

   In addition, you will be eligible to participate in the Veracyte 2017 Bonus Program. Your target bonus for 2017 will be 50% of eligible annual earnings. Payout is dependent on company and individual performance and is not guaranteed.

2. You will be granted the option to purchase 100,000 shares of Veracyte Common Stock. The price per share will be equal to the fair market value of the Common Stock on the date of grant (your Veracyte hire date). The vesting will begin on the first anniversary of your employment, and then 1/36 of the shares will vest each month for the next 36 months.

   In addition, on your hire date you will be granted 25,000 RSUs that will vest on the one-year anniversary of your Veracyte employment.

3. You will also be eligible for the provisions of our Change of Control and Severance Agreement, which is attached for your review and signature.

4. Furthermore, you will be eligible for medical, dental, vision and life insurance benefits, and participation in the Company's 401(k) and Employee Stock Purchase Plans, which will be further detailed in a separate communique from Human Resources. Also, you will be eligible for paid time off and Company paid holidays in accordance with Veracyte's established policies. These and other policies are explained fully in the Company's benefits booklet and employee handbook.

5. As we have discussed, for up to one year from your date of hire the Company agrees to reimburse your reasonable travel expenses from your state of residence. If you and your family relocate to the Bay Area, the Company agrees to pay reasonable relocation costs with terms to which we mutually agree in advance.

In accordance with the law, employment with the Company is at-will, and may be terminated at any time by you or the Company, with or without cause and with or without notice. However, if employment is terminated by you, the Company requests that you provide as much notice as possible.

Employment with the Company is contingent upon your signmg of, and compliance with, its At-Will Employment, Confidential Information and Invention Assignment and Arbitration Agreement. This requires, among other provisions, the assignment of patent rights to any invention made during your employment with the Company, as well as non-disclosure of Company proprietary information. There is also a requirement for resolution by binding arbitration of any dispute arising out of our employment relationship. The arbitration requirement is described in detail in the agreement, a copy of which is enclosed with this offer. Kindly send a signed copy of this agreement to Geraldine Yamaguchi (geraldine@veracyte.com) prior to your first day of employment. You may also bring it with you your first day.

In keeping with Federal immigration law, you will be required to provide the Company documentary evidence of your identity and eligibility for employment in the United States. This documentation must be provided to the Company within three business days of your date of hire.

To accept the Company's offer, please sign and date this letter in the space provided below. This letter, together with any agreements relating to proprietary rights as described here, establishes the terms of your employment with the Company, and supersedes any prior representations or agreements including, but not limited to, any representations made during your recruitment, interviews or pre-employment negotiations, whether written or oral. This letter including, but not limited to, its at-will employment provision, may not be modified or amended except by written agreement signed by an Officer of the Company and you.

Keith, we can't wait to welcome you aboard! If you have any questions about this offer or its terms, please feel free to contact me directly at 650-243-6302 or Andy Danforth at 650-243-6347.

Warmest regards,
/s/ Bonnie Anderson
Bonnie Anderson
President and Chief Executive Officer

Agreed and accepted:

Signature:	/s/ Keith Kennedy
Printed Name:	Keith Kennedy
Date:	11-17-2016

Enclosures: Duplicate Original letter, At-Will Employment, Confidential Information, Invention Assignment and Arbitration Agreement, Change in Control and Severance Agreement

Exhibit 12.1

VERACYTE, INC.
STATEMENT REGARDING COMPUTATION OF RATIOS
(in thousands)

	For the year ended December 31,				
	2013	**2014**	**2015**	**2016**	**2017**
Earnings (deficiency):					
Net loss	$ (25,580)	$ (29,373)	$ (33,704)	$ (31,358)	$ (31,003)
Add:					
Fixed charges	294	511	455	2,855	4,987
Earnings (deficiency)	$ (25,286)	$ (28,862)	$ (33,249)	$ (28,503)	$ (26,016)
Fixed Charges:					
Interest expense	266	$ 483	$ 378	$ 2,757	$ 4,941
Estimated interest portion of rental expense	28	28	77	98	46
Total fixed charges	$ 294	$ 511	$ 455	$ 2,855	$ 4,987
Deficiency in the coverage of fixed charges	$ (25,580)	$ (29,373)	$ (33,704)	$ (31,358)	$ (31,003)
Ratio of Earnings to Fixed Charges(1)(2)	NM	NM	NM	NM	NM

(1) The ratio of earnings to fixed charges is computed by dividing loss before taxes plus fixed charges by fixed charges. Fixed charges consist of interest expense (including interest expense from capital leases), debt financing expense, end-of-term debt obligation and prepayment penalty expense and the estimated portion of rental expense deemed by us to be representative of the interest factor of rental payments under operating leases. Earnings were insufficient to cover fixed charges by the amounts set forth in the table above under the heading “Deficiency in the coverage of fixed charges.”

(2) NM—Not meaningful.

For the periods presented above, there were no outstanding shares of preferred stock with required dividend payments. Therefore, earnings were insufficient to cover combined fixed charges and preferred stock dividends in the same amounts referenced in the line entitled “Deficiency in the coverage of fixed charges” in the table above.

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the following Registration Statements:

(1) Registration Statements (Forms S-8 Nos. 333-191992, 333-203097, 333-210185, and 333- 216388) pertaining to the 2008 Stock Plan and 2013 Stock Incentive Plan of Veracyte, Inc.,
(2) Registration Statement (Form S-8 No. 333-205206) pertaining to the Employee Stock Purchase Plan of Veracyte, Inc., and
(3) Registration Statements (Forms S-3 Nos. 333-204368 and 333-205204) of Veracyte, Inc.;

of our report dated February 27, 2018, with respect to the financial statements of Veracyte, Inc. included in this Annual Report (Form 10-K) of Veracyte, Inc. for the year ended December 31, 2017.

/s/ Ernst & Young LLP

Redwood City, California
February 27, 2018

Exhibit 31.1

PRINCIPAL EXECUTIVE OFFICER'S CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Bonnie H. Anderson, certify that:

1. I have reviewed this annual report on Form 10-K of Veracyte, Inc.:

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

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

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

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

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

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

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

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

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

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 27, 2018

/s/ Bonnie H. Anderson

Bonnie H. Anderson

Chairman and Chief Executive Officer

(Principal Executive Officer)

Exhibit 31.2

PRINCIPAL FINANCIAL OFFICER'S CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Keith S. Kennedy, certify that:

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

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

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

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

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

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

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

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

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

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

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 27, 2018

/s/ Keith S. Kennedy

Keith S. Kennedy
Chief Financial Officer
(Principal Financial and Accounting Officer)

Exhibit 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the annual report of Veracyte, Inc. (the "Company") on Form 10-K for the year ended December 31, 2017, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned officer of the Company certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to such officer's knowledge:

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

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

Date: February 27, 2018

/s/ Bonnie H. Anderson

Bonnie H. Anderson
Chairman and Chief Executive Officer
(Principal Executive Officer)

Exhibit 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the annual report of Veracyte, Inc. (the "Company") on Form 10-K for the year ended December 31, 2017, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned officer of the Company certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to such officer's knowledge:

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

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

Date: February 27, 2018

/s/ Keith S. Kennedy

Keith S. Kennedy
Chief Financial Officer
(Principal Financial and Accounting Officer)