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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**FORM 10-Q**

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

For the quarterly period ended June 30, 2020

OR

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

Commission File Number: 001-35092

**EXACT SCIENCES CORPORATION**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of  
incorporation or organization)

**02-0478229**

(I.R.S. Employer  
Identification Number)

**5505 Endeavor Lane, Madison WI**

(Address of principal executive offices)

**53719**

(Zip Code)

**(608) 535-8815** (Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, \$0.01 par value per share	EXAS	The Nasdaq Stock Market LLC

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

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

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

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
Emerging growth company	<input type="checkbox"/>		

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

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

As of July 30, 2020, the registrant had 150,167,320 shares of common stock outstanding.

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**EXACT SCIENCES CORPORATION**

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**EXACT SCIENCES CORPORATION**  
**Condensed Consolidated Balance Sheets**  
(Amounts in thousands, except share data - unaudited)

## Part I — Financial Information

	June 30, 2020	December 31, 2019
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 703,926	\$ 177,254
Marketable securities	518,731	146,401
Accounts receivable, net	163,608	130,667
Inventory	82,215	61,724
Prepaid expenses and other current assets	36,378	40,913
Total current assets	1,504,858	556,959
Long-term Assets:		
Property, plant and equipment, net	463,437	455,325
Operating lease right-of-use assets	132,751	126,444
Goodwill	1,237,672	1,203,197
Intangible assets, net	1,105,115	1,143,550
Other long-term assets, net	23,902	20,293
Total assets	\$ 4,467,735	\$ 3,505,768
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current Liabilities:		
Accounts payable	\$ 30,998	\$ 25,973
Accrued liabilities	139,505	193,329
Operating lease liabilities, current portion	9,871	7,891
Debt, current portion	1,319	834
Other current liabilities	40,581	8,467
Total current liabilities	222,274	236,494
Long-term Liabilities:		
Convertible notes, net	1,534,383	803,605
Long-term debt, less current portion	22,944	24,032
Other long-term liabilities	50,311	34,911
Operating lease liabilities, less current portion	126,630	118,665
Total liabilities	1,956,542	1,217,707
Commitments and contingencies		
Stockholders' Equity:		
Preferred stock, \$0.01 par value Authorized—5,000,000 shares issued and outstanding—no shares at June 30, 2020 and December 31, 2019	—	—
Common stock, \$0.01 par value Authorized—200,000,000 shares issued and outstanding—149,980,798 and 147,625,696 shares at June 30, 2020 and December 31, 2019	1,501	1,477
Additional paid-in capital	3,819,798	3,406,440
Accumulated other comprehensive income (loss)	1,489	(100)
Accumulated deficit	(1,311,595)	(1,119,756)
Total stockholders' equity	2,511,193	2,288,061
Total liabilities and stockholders' equity	\$ 4,467,735	\$ 3,505,768

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

**EXACT SCIENCES CORPORATION**  
**Condensed Consolidated Statements of Operations**  
(Amounts in thousands, except per share data - unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Revenue	\$ 268,868	\$ 199,870	\$ 616,689	\$ 361,913
<b>Operating expenses</b>				
Cost of sales (exclusive of amortization of acquired intangible assets)	77,892	51,139	159,498	93,966
Research and development	32,673	29,972	76,182	61,757
Sales and marketing	118,862	88,190	286,611	179,129
General and administrative	106,685	63,723	220,676	127,529
Amortization of acquired intangible assets	23,430	748	46,769	1,508
Total operating expenses	359,542	233,772	789,736	463,889
Other operating income	23,665	—	23,665	—
Loss from operations	(67,009)	(33,902)	(149,382)	(101,976)
<b>Other income (expense)</b>				
Investment income, net	2,912	7,669	3,009	14,324
Interest expense	(22,912)	(12,712)	(48,065)	(34,702)
Total other income (expense)	(20,000)	(5,043)	(45,056)	(20,378)
Net loss before tax	(87,009)	(38,945)	(194,438)	(122,354)
Income tax benefit	867	443	2,599	913
Net loss	\$ (86,142)	\$ (38,502)	\$ (191,839)	\$ (121,441)
Net loss per share—basic and diluted	\$ (0.58)	\$ (0.30)	\$ (1.29)	\$ (0.95)
Weighted average common shares outstanding—basic and diluted	149,727	129,182	148,938	127,723

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

**EXACT SCIENCES CORPORATION**  
**Condensed Consolidated Statements of Comprehensive Loss**  
**(Amounts in thousands - unaudited)**

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Net loss	\$ (86,142)	\$ (38,502)	\$ (191,839)	\$ (121,441)
Other comprehensive loss, before tax:				
Unrealized gain on available-for-sale investments	3,206	1,952	1,564	4,128
Foreign currency adjustment	—	—	25	—
Comprehensive loss, before tax	(82,936)	(36,550)	(190,250)	(117,313)
Income tax expense related to items of other comprehensive loss	—	(464)	—	(984)
Comprehensive loss, net of tax	<u>\$ (82,936)</u>	<u>\$ (37,014)</u>	<u>\$ (190,250)</u>	<u>\$ (118,297)</u>

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

**EXACT SCIENCES CORPORATION**  
**Condensed Consolidated Statements of Stockholders' Equity**  
(Amounts in thousands, except share data - unaudited)

	Common Stock		Additional Paid-In Capital	Other Comprehensive Income (Loss)	Accumulated Deficit	Total Stockholders' Equity
	Number of Shares	\$0.01 Par Value				
Balance, January 1, 2020	147,625,696	\$ 1,477	\$ 3,406,440	\$ (100)	\$(1,119,756)	\$ 2,288,061
Equity component of convertible notes, net of tax and issuance costs	—	—	346,641	—	—	346,641
Settlement of convertible notes, net of tax	—	—	(64,199)	—	—	(64,199)
Exercise of common stock options	160,286	2	4,298	—	—	4,300
Issuance of common stock to fund the Company's 2019 401(k) match	136,559	1	12,006	—	—	12,007
Compensation expense related to issuance of stock options and restricted stock awards	1,141,376	11	29,549	—	—	29,560
Issuance of common stock for business combinations	382,947	4	28,593	—	—	28,597
Net loss	—	—	—	—	(105,697)	(105,697)
Accumulated other comprehensive loss	—	—	—	(1,617)	—	(1,617)
Balance, March 31, 2020	149,446,864	\$ 1,495	\$ 3,763,328	\$ (1,717)	\$(1,225,453)	\$ 2,537,653
Exercise of common stock options	208,434	2	6,636	—	—	6,638
Compensation expense related to issuance of stock options and restricted stock awards	157,579	2	40,037	—	—	40,039
Purchase of employee stock purchase plan shares	167,921	2	9,797	—	—	9,799
Net loss	—	—	—	—	(86,142)	(86,142)
Accumulated other comprehensive income	—	—	—	3,206	—	3,206
Balance, June 30, 2020	149,980,798	\$ 1,501	\$ 3,819,798	\$ 1,489	\$(1,311,595)	\$ 2,511,193

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

**EXACT SCIENCES CORPORATION**  
**Condensed Consolidated Statements of Stockholders' Equity**  
(Amounts in thousands, except share data - unaudited)

	Common Stock		Additional Paid-In Capital	Other Comprehensive Income (Loss)	Accumulated Deficit	Total Stockholders' Equity
	Number of Shares	\$0.01 Par Value				
Balance, January 1, 2019	123,192,540	\$ 1,232	\$ 1,716,894	\$ (1,422)	\$ (1,035,763)	\$ 680,941
Equity component of convertible notes, net of tax and issuance costs	—	—	268,390	—	—	268,390
Shares issued to settle convertible notes	2,158,991	22	182,413	—	—	182,435
Settlement of convertible notes	—	—	(300,768)	—	—	(300,768)
Exercise of common stock options	235,278	2	3,648	—	—	3,650
Issuance of common stock to fund the Company's 2018 401(k) match	86,532	1	7,408	—	—	7,409
Compensation expense related to issuance of stock options and restricted stock awards	3,410,481	35	16,131	—	—	16,166
Net loss	—	—	—	—	(82,939)	(82,939)
Accumulated other comprehensive income	—	—	—	1,656	—	1,656
Balance, March 31, 2019	129,083,822	\$ 1,292	\$ 1,894,116	\$ 234	\$ (1,118,702)	\$ 776,940
Equity component of convertible notes, net of issuance costs	—	—	(22)	—	—	(22)
Exercise of common stock options	78,793	1	1,347	—	—	1,348
Compensation expense related to issuance of stock options and restricted stock awards	104,845	1	20,142	—	—	20,143
Purchase of employee stock purchase plan shares	93,588	1	4,136	—	—	4,137
Net loss	—	—	—	—	(38,502)	(38,502)
Accumulated other comprehensive income	—	—	—	1,488	—	1,488
Balance, June 30, 2019	129,361,048	\$ 1,295	\$ 1,919,719	\$ 1,722	\$ (1,157,204)	\$ 765,532

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

**EXACT SCIENCES CORPORATION**  
**Condensed Consolidated Statements of Cash Flows**  
(Amounts in thousands - unaudited)

	Six Months Ended June 30,	
	2020	2019
<b>Cash flows from operating activities:</b>		
Net loss	\$ (191,839)	\$ (121,441)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	33,632	13,507
Loss on disposal of property, plant and equipment	650	211
Unrealized loss on revaluation of marketable equity securities	333	—
Deferred tax benefit	(3,222)	(984)
Stock-based compensation	69,599	36,309
Loss on settlement of convertible notes	7,954	10,558
Amortization of convertible note debt discount and issuance costs	34,638	19,798
Amortization of deferred financing costs and other liabilities	(2,505)	(847)
Amortization of premium on short-term investments	503	(2,580)
Amortization of acquired intangible assets	46,769	1,508
Non-cash lease expense	6,860	1,762
Changes in assets and liabilities:		
Accounts receivable, net	(30,644)	(18,574)
Inventory, net	(20,260)	(8,633)
Operating lease liabilities	(4,997)	(1,607)
Accounts payable and accrued liabilities	(47,587)	25,725
Other assets and liabilities	43,419	(11,920)
Net cash used in operating activities	(56,697)	(57,208)
<b>Cash flows from investing activities:</b>		
Purchases of marketable securities	(640,085)	(511,587)
Maturities and sales of marketable securities	268,483	447,674
Purchases of property, plant and equipment	(33,455)	(79,448)
Business combination, net of cash acquired	(6,654)	—
Other investing activities	(516)	(380)
Net cash used in investing activities	(412,227)	(143,741)
<b>Cash flows from financing activities:</b>		
Proceeds from issuance of convertible notes, net	1,125,547	729,479
Proceeds from exercise of common stock options	10,938	4,998
Proceeds in connection with the Company's employee stock purchase plan	9,799	4,137
Payments on settlement of convertible notes	(150,054)	(493,356)
Other financing activities	(626)	319
Net cash provided by financing activities	995,604	245,577
Net increase in cash, cash equivalents and restricted cash	526,680	44,628
Cash, cash equivalents and restricted cash, beginning of period	177,528	160,430
Cash, cash equivalents and restricted cash, end of period	\$ 704,208	\$ 205,058

**EXACT SCIENCES CORPORATION**  
**Condensed Consolidated Statements of Cash Flows**  
**(Amounts in thousands - unaudited)**

	Six Months Ended June 30,	
	2020	2019
<b>Supplemental disclosure of non-cash investing and financing activities</b>		
Property, plant and equipment acquired but not paid	\$ 8,684	\$ 24,402
Unrealized gain on available-for-sale investments, before tax	\$ 1,564	\$ 4,128
Issuance of 136,559 and 86,532 shares of common stock to fund the Company's 401(k) matching contribution for 2019 and 2018, respectively	\$ 12,007	\$ 7,409
Issuance of 2,158,991 shares of common stock upon settlement of convertible notes	\$ —	\$ 182,435
Retirement of equity component of convertible notes settled	\$ (64,199)	\$ (300,768)
Issuance of 382,947 shares for business combination	\$ 28,597	\$ —
<b>Supplemental disclosure of cash flow information:</b>		
Interest paid	\$ 3,908	\$ 1,216

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

**EXACT SCIENCES CORPORATION**  
**Notes to Condensed Consolidated Financial Statements**  
**(Unaudited)**

**(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Business**

Exact Sciences Corporation (together with its subsidiaries, “Exact,” or the “Company”) was incorporated in February 1995. Exact is a leading global cancer diagnostics company. It has developed some of the most impactful brands in cancer screening and diagnostics, including Cologuard® and Oncotype DX®. Exact is currently working on the development of additional tests for other types of cancer, with the goal of bringing new innovative cancer tests to patients throughout the world.

**Basis of Presentation and Principles of Consolidation**

The accompanying condensed consolidated financial statements, which include the accounts of Exact Sciences Corporation and those of its wholly owned subsidiaries and variable interest entities, are unaudited and have been prepared on a basis substantially consistent with the Company’s audited financial statements and notes as of and for the year ended December 31, 2019 included in the Company’s Annual Report on Form 10-K (the “2019 Form 10-K”). All intercompany transactions and balances have been eliminated upon consolidation. These condensed consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States of America (“GAAP”) and follow the requirements of the Securities and Exchange Commission (“SEC”) for interim reporting. In the opinion of management, the accompanying unaudited condensed financial statements contain all adjustments (consisting only of adjustments of a normal and recurring nature) considered necessary for a fair statement of its financial position, operating results and cash flows for the periods presented. The condensed balance sheet at December 31, 2019 has been derived from audited financial statements, but does not contain all of the footnote disclosures from the 2019 Form 10-K. The results of the Company’s operations for any interim period are not necessarily indicative of the results of the Company’s operations for any other interim period or for a full fiscal year. The statements should be read in conjunction with the audited financial statements and related notes included in the 2019 Form 10-K.

**Use of Estimates**

The preparation of the condensed consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Critical accounting policies are those that affect the Company’s financial statements materially and involve difficult, subjective or complex judgments by management, and actual results could differ from those estimates. These estimates include revenue recognition, valuation of convertible notes, valuation of intangible assets and goodwill, and accounting for income taxes among others. The Company’s critical accounting policies and estimates are explained further in the notes to the condensed consolidated financial statements in this Quarterly Report and the 2019 Form 10-K.

The spread of the coronavirus (“COVID-19”) has affected many segments of the global economy, including the cancer screening and diagnostics industry. The COVID-19 outbreak, which the World Health Organization has classified as a pandemic, has prompted governments and regulatory bodies throughout the world to enact broad precautionary measures, including “stay-at-home” orders, restrictions on the performance of “non-essential” services, public gatherings and travel. Health systems, including key markets where the Company operates, have been, or may be, overwhelmed with high volumes of patients suffering from COVID-19.

The extent to which COVID-19 impacts the Company’s business and financial results will depend on numerous evolving factors including, but not limited to: the magnitude and duration of COVID-19, the extent to which it will impact worldwide macroeconomic conditions including interest rates, employment rates and health insurance coverage, the speed of the anticipated recovery, access to capital markets, and governmental and business reactions to the pandemic. The Company assessed certain accounting matters that generally require consideration of forecasted financial information in context with the information reasonably available to the Company and the unknown future impacts of COVID-19 as of June 30, 2020 and through the date of the filing of this Quarterly Report

**EXACT SCIENCES CORPORATION**  
**Notes to Condensed Consolidated Financial Statements**  
**(Unaudited)**

on Form 10-Q. The accounting matters assessed included, but were not limited to, the Company's allowance for doubtful accounts and credit losses, equity investments, software, and the carrying value of the goodwill and other long-lived assets. The Company's future assessment of the magnitude and duration of COVID-19, as well as other factors, could result in additional material impacts to the Company's consolidated financial statements in future reporting periods.

Despite the Company's efforts, the ultimate impact of COVID-19 depends on factors beyond the Company's knowledge or control, including the duration and severity of the outbreak, as well as third-party actions taken to contain its spread and mitigate its public health effects. As a result, the Company is unable to estimate the extent to which COVID-19 will negatively impact its financial results or liquidity.

**Coronavirus Aid, Relief, and Economic Security Act ("CARES Act")**

In April 2020, the Company received \$23.7 million from the United States Department of Health and Human Services ("HHS") as a distribution from the Public Health and Social Services Emergency Fund provided for in the CARES Act. The fund payments are grants, not loans, and HHS will not require repayment provided the funds are utilized to offset expenses incurred to address COVID-19 or to replace lost revenues. The Company accepted the terms and conditions of the grant in May 2020 and recognized the entire \$23.7 million during the three months ended June 30, 2020, due to lost revenue attributable to COVID-19, which is reflected in other operating income in the condensed consolidated statement of operations. The Company cannot predict the extent to which the Company will receive any additional funds to be paid out under the Provider Relief Fund, and to what extent the financial impact of receiving such funds would do to effectively offset the broad implications of the COVID-19 pandemic which include increases in the Company's costs and lost revenues.

**Cash and Cash Equivalents**

The Company considers cash on hand, demand deposits in bank, money market funds, and all highly liquid investments with an original maturity of 90 days or less to be cash and cash equivalents.

**Marketable Securities**

Management determines the appropriate classification of debt securities at the time of purchase and re-evaluates such designation as of each balance sheet date. Debt securities carried at amortized cost are classified as held-to-maturity when the Company has the positive intent and ability to hold the securities to maturity. Debt securities not classified as held-to-maturity are classified as available-for-sale. Available-for-sale securities are carried at fair value. The unrealized gains and losses, net of tax, on the Company's debt securities are reported in other comprehensive income. Marketable equity securities are measured at fair value and the unrealized gains and losses, net of tax, are recognized in other income (expense) in the condensed consolidated statements of operations. The amortized cost of debt securities in this category is adjusted for amortization of premiums and accretion of discounts to maturity computed under the straight-line method. Such amortization is included in investment income, net. Realized gains and losses and declines in value as a result of credit losses on available-for-sale securities are included in the condensed consolidated statements of operations as investment income, net. The cost of securities sold is based on the specific identification method. Interest and dividends on securities classified as available-for-sale are included in the condensed consolidated statements of operations as investment income, net.

The Company's investment policy limits investments to certain types of instruments issued by institutions with investment grade credit ratings and places restrictions on maturities and concentration by type and issuer. Investments in which the Company has the ability and intent, if necessary, to liquidate, in order to support its current operations (including those with a contractual term greater than one year from the date of purchase), are classified as current.

**EXACT SCIENCES CORPORATION**  
**Notes to Condensed Consolidated Financial Statements**  
**(Unaudited)**

The Company periodically evaluates its available-for-sale debt securities in unrealized loss positions to determine whether any impairment is a result of a credit loss or other factors. This evaluation includes, but is not limited to, significant quantitative and qualitative assessments and estimates regarding credit ratings, significance of a security's loss position, adverse conditions specifically related to the security, and the payment structure of the security.

#### **Allowance for Doubtful Accounts**

The Company estimates an allowance for doubtful accounts against accounts receivable using historical collection trends, aging of accounts, current and future implications surrounding the ability to collect such as economic conditions, and regulatory changes. The allowance for doubtful accounts is evaluated on a regular basis and adjusted when trends, significant events or other substantive evidence indicate that expected collections will be less than applicable accrual rates. At June 30, 2020 and December 31, 2019 the allowance for doubtful accounts recorded was not material to the Company's condensed consolidated balance sheets. For the three and six months ended June 30, 2020 and 2019, there was an immaterial amount of bad debt expense written off against the allowance and charged to operating expense.

#### **Inventory**

Inventory is stated at the lower of cost or net realizable value. The Company determines the cost of inventory using the first-in, first out method ("FIFO"). The Company estimates the recoverability of inventory by reference to internal estimates of future demands and product life cycles, including expiration. The Company periodically analyzes its inventory levels to identify inventory that may expire prior to expected sale, no longer meet quality specifications, or has a cost basis in excess of its estimated realizable value and records a charge to cost of sales for such inventory as appropriate.

Direct and indirect manufacturing costs incurred during process validation with probable future economic benefit are capitalized. Validation costs incurred for other research and development activities, which are not permitted to be sold, have been expensed to research and development in the Company's condensed consolidated statements of operations.

Inventory consisted of the following:

<b>(In thousands)</b>	<b>June 30, 2020</b>	<b>December 31, 2019</b>
Raw materials	\$ 35,713	\$ 24,958
Semi-finished and finished goods	46,502	36,766
Total inventory	<u>\$ 82,215</u>	<u>\$ 61,724</u>

#### **Property, Plant and Equipment**

Property, plant and equipment are stated at cost and depreciated using the straight-line method over the assets' estimated useful lives. Land is stated at cost and does not depreciate. Additions and improvements are capitalized, including direct and indirect costs incurred to validate equipment and bring it to working conditions. Revalidation costs, including maintenance and repairs are expensed when incurred.

#### **Software Development Costs**

Costs related to internal use software, including hosting arrangements, are incurred in three stages: the preliminary project stage, the application development stage, and the post-implementation stage. Costs incurred during the preliminary project and post-implementation stages are expensed as incurred. Costs incurred during the application development stage that meet the criteria for capitalization are capitalized and amortized, when the software is ready for its intended use, using the straight-line basis over the estimated useful life of the software, or the duration of the hosting agreement.

**EXACT SCIENCES CORPORATION**  
**Notes to Condensed Consolidated Financial Statements**  
**(Unaudited)**

**Investments in Privately Held Companies**

The Company determines whether its investments in privately held companies are debt or equity based on their characteristics, in accordance with the applicable accounting guidance for such investments. The Company also evaluates the investee to determine if the entity is a variable interest entity (“VIE”) and, if so, whether the Company is the primary beneficiary of the VIE, in order to determine whether consolidation of the VIE is required. If consolidation is not required and the Company does not have voting control of the entity, the investment is evaluated to determine if the equity method of accounting should be applied. The equity method applies to investments in common stock or in substance common stock where the Company exercises significant influence over the investee.

Investments in privately held companies determined to be equity securities are accounted for as non-marketable securities. The Company adjusts the carrying value of its non-marketable equity securities for changes from observable transactions for identical or similar investments of the same issuer, less impairment. All gains and losses on non-marketable equity securities, realized and unrealized, are recognized in other income (expense) in the condensed consolidated statements of operations.

Investments in privately held companies determined to be debt securities are accounted for as available-for-sale or held-to-maturity securities, in accordance with the applicable accounting guidance for such investments.

**Derivative Financial Instruments**

The Company hedges a portion of its foreign currency exposures related to outstanding monetary assets and liabilities using foreign currency forward contracts. The foreign currency forward contracts are included in prepaid expenses and other current assets or in accrued liabilities in the condensed consolidated balance sheets, depending on the contracts’ net position. These contracts are not designated as hedges, and as a result, changes in their fair value are recorded in other income (expense) in the condensed consolidated statements of operations. There were no gains or losses recorded for the three and six months ended June 30, 2020 and 2019. As of June 30, 2020 and December 31, 2019, the Company had open foreign currency forward contracts with notional amounts of \$16.0 million and \$17.9 million, respectively. The Company’s foreign exchange derivative instruments are classified as Level 2 within the fair value hierarchy as they are valued using inputs that are observable in the market or can be derived principally from or corroborated by observable market data. The fair value of the foreign currency forward contracts was zero at June 30, 2020 and December 31, 2019.

**Intangible Assets**

Purchased intangible assets are recorded at fair value. The Company uses a discounted cash flow model to value intangible assets. The discounted cash flow model requires assumptions about the timing and amount of future net cash flows, risk, the cost of capital, terminal values and market participants.

Patent costs are capitalized as incurred, only if the Company determines that there is some probable future economic benefit derived from the transaction. A capitalized patent is amortized over its estimated useful life, beginning when such patent is approved. Capitalized patent costs are expensed upon disapproval, upon a decision by the Company to no longer pursue the patent or when the related intellectual property is either sold or deemed to be no longer of value to the Company. The Company determined that all patent costs incurred during the three and six months ended June 30, 2020 and 2019 should be expensed and not capitalized as the future economic benefit derived from the patent costs incurred cannot be determined.

**Acquired In-process Research and Development (IPR&D)**

Acquired IPR&D represents the fair value assigned to research and development assets that have not reached technological feasibility. The value assigned to acquired IPR&D is determined by estimating the costs to develop the acquired technology into commercially viable products, estimating the resulting revenues from the projects and discounting the net cash flows to present value. The revenues and cost projections used to value acquired IPR&D are, as applicable, reduced based on the probability of success. IPR&D projects acquired in a business combination that are not complete are capitalized and accounted for as indefinite-lived intangible assets until completion or

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abandonment of the related R&D efforts. Upon successful completion of the project, the capitalized amount is amortized over its estimated useful life. If a project is abandoned, all remaining capitalized amounts are written off immediately. There are often major risks and uncertainties associated with IPR&D projects as we are required to obtain regulatory approvals in order to be able to market the resulting products. Such approvals require completing clinical trials that demonstrate the products effectiveness. Consequently, the eventual realized value of the IPR&D project may vary from its fair value at the date of acquisition, and IPR&D impairment charges may occur in future periods.

Capitalized IPR&D projects are tested for impairment annually and whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The Company considers various factors for potential impairment, including the current legal and regulatory environment and the competitive landscape. Adverse clinical trial results, significant delays in obtaining marketing approval, the inability to bring a product to market and the introduction or advancement of competitors' products could result in partial or full impairment of the related intangible assets.

### **Goodwill**

The Company evaluates goodwill for possible impairment in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 350 on an annual basis during the fourth quarter, or more frequently if events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. Qualitative factors considered in this assessment include industry and market conditions, overall financial performance, and other relevant events and factors affecting the Company's business. Based on the qualitative assessment, if it is determined that the fair value of goodwill is more likely than not to be less than its carrying amount, the fair value of a reporting unit will be calculated and compared with its carrying amount and an impairment charge will be recognized for the amount that the carrying value exceeds the fair value.

### **Impairment of Long-Lived Assets**

The Company evaluates the fair value of long-lived assets, which include property, plant and equipment, intangible assets, and investments in privately held companies, for impairment whenever events or changes in circumstances indicate that the carrying amounts of the assets may not be fully recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. There were no impairment losses for the periods ended June 30, 2020 and December 31, 2019.

### **Fair Value Measurements**

The FASB has issued authoritative guidance that requires fair value to be based on the assumptions market participants would use when pricing an asset or liability and establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. Under that standard, fair value measurements are separately disclosed by level within the fair value hierarchy. The fair value hierarchy establishes and prioritizes the inputs used to measure fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs. Observable inputs are inputs that reflect the assumptions that market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the Company. Unobservable inputs are inputs that reflect the Company's assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

### **Convertible Notes**

The Company accounts for convertible notes that may be settled in cash or equity upon conversion by separating the liability and equity components of the instruments in a manner that reflects the Company's nonconvertible debt borrowing rate. The Company determines the carrying amount of the liability component of the convertible notes by using assumptions that market participants would use in pricing a debt instrument, including

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market interest rates, credit standing, yield curves and volatilities. Determining the fair value of the debt component requires the use of accounting estimates and assumptions. These estimates and assumptions are judgmental in nature and could have a significant impact on the determination of the debt component, and the associated non-cash interest expense.

**Leases**

The Company acts as lessee in its lease agreements, which includes operating leases for corporate offices, laboratory space, warehouse space, vehicles and certain laboratory and office equipment. The Company also has finance leases for certain equipment, which are not material to the Company's condensed consolidated financial statements.

The Company determines whether an arrangement is, or contains, a lease at inception. At the beginning of fiscal year 2019, the company adopted ASC Topic 842. The Company records the present value of operating lease payments as right-of-use ("ROU") assets and lease liabilities on the condensed consolidated balance sheets. ROU assets represent the Company's right to use an underlying asset for the lease term and lease liabilities represent an obligation to make lease payments based on the present value of lease payments over the lease term. Classification of operating lease liabilities as either current or non-current is based on the expected timing of payments due under the Company's obligations.

As most of the Company's leases do not provide an implicit interest rate, the Company uses its incremental borrowing rate based on the information available at commencement date in determining the present value of lease payments. The incremental borrowing rate is the rate of interest that a lessee would have to pay to borrow on a collateralized basis over a similar term and at an amount equal to the lease payments in a similar economic environment. In order to determine the appropriate incremental borrowing rates, the Company has used a number of factors including the credit rating, and the lease term. Certain vehicle leases include variable lease payments that depend on an index or rate. Those lease payments are initially measured using the index or rate at the lease commencement date.

The ROU asset also consists of any lease incentives received. The lease terms used to calculate the ROU asset and related lease liability include options to extend or terminate the lease when it is reasonably certain that the Company will exercise that option. "Reasonably certain" is assessed internally based on economic, industry, company, strategic and contractual factors. The leases have remaining lease terms of 1 year to 15 years, some of which include options to extend the lease for up to 10 years, and some of which include options to terminate the lease within 1 year. Lease expense for operating leases is recognized on a straight-line basis over the lease term as an operating expense.

The Company accounts for leases acquired in business combinations by measuring the lease liability at the present value of the remaining lease payments as if the acquired lease were a new lease for the Company. This measurement includes recognition of a lease intangible for any below-market terms present in the leases acquired. The below-market lease intangible is included in the ROU asset on the condensed consolidated balance sheets and are amortized over the remaining lease term. The Company has not acquired any leases with above-market terms.

The Company has taken advantage of certain practical expedients offered to registrants at adoption of ASC 842. The Company does not apply the recognition requirements of ASC 842 to short-term leases. Instead, those lease payments are recognized in profit or loss on a straight-line basis over the lease term. Further, as a practical expedient, all lease contracts are accounted for as one single lease component, as opposed to separating lease and non-lease components to allocate the consideration within a single lease contract.

**Net Loss Per Share**

Basic net loss per common share was determined by dividing net loss applicable to common stockholders by the weighted average common shares outstanding during the period. Basic and diluted net loss per share is the same because all outstanding common stock equivalents have been excluded, as they are anti-dilutive as a result of the Company's losses.

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The following potentially issuable common shares were not included in the computation of diluted net loss per share because they would have an anti-dilutive effect due to net losses for each period:

(In thousands)	June 30,	
	2020	2019
Shares issuable upon exercise of stock options	2,575	2,387
Shares issuable upon the release of restricted stock awards	4,662	4,123
Shares issuable upon conversion of convertible notes	20,309	12,197
	27,546	18,707

### Accounting for Stock-Based Compensation

The Company requires all share-based payments to employees, including grants of employee stock options, restricted stock, restricted stock units and shares purchased under an employee stock purchase plan (if certain parameters are not met), to be recognized in the financial statements based on their grant date fair values. Forfeitures of any share-based awards are recognized as they occur.

### Revenue Recognition

Revenues are recognized when control of the promised services are transferred to the patient's healthcare provider, in an amount that reflects the consideration the Company expects to be entitled to in exchange for those services. To determine revenue recognition for the arrangements that the Company determines are within the scope of FASB ASC Topic 606, *Revenue from Contracts with Customers*, the Company performs the following five steps: (1) identify the contract(s) with a customer, (2) identify the performance obligations in the contract, (3) determine the transaction price, (4) allocate the transaction price to the performance obligations in the contract and (5) recognize revenue when (or as) the entity satisfies a performance obligation. See Note 2 for further discussion.

### Foreign Currency Transactions

Prior to 2019, the Company's international subsidiaries' functional currency was the local currency and assets and liabilities were translated into U.S. dollars at the period-end exchange rate or historical rates, as appropriate. Condensed consolidated statements of operations were translated at average exchange rates for the period, and the cumulative translation adjustments resulting from changes in exchange rates were included in the Company's condensed consolidated balance sheet as a component of additional paid-in capital. In 2019 and 2020 the Company's international subsidiaries use the U.S. dollar as the functional currency, resulting in the Company not being subject to gains and losses from foreign currency translation of the subsidiary financial statements. The Company recognizes gains and losses from foreign currency transactions in the condensed consolidated statements of operations. Net foreign currency transaction gains or losses were not material to the condensed consolidated statements of operations for the periods presented.

### Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation in the condensed consolidated financial statements and accompanying notes to the condensed consolidated financial statements including the amortization of acquired intangible assets, which is now presented as a separate line item on the Company's condensed consolidated statements of operations and was previously included in cost of sales, research and development, and general and administrative expenses. Due to these reclassifications, the Company is no longer presenting gross margin on the Company's condensed consolidated statements of operations.

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**Recent Accounting Pronouncements**

*Recently Adopted Accounting Pronouncements*

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. The updated guidance requires companies to measure all expected credit losses for financial instruments held at the reporting date based on historical experience, current conditions, and reasonable supportable forecasts. This replaces the existing incurred loss model and is applicable to the measurement of credit losses on financial assets, including trade receivables. The updates also require available-for-sale debt security credit losses to be recognized as allowances rather than a reduction in amortized cost. The guidance was adopted by the Company on January 1, 2020. The requirements of the ASU did not result in the recognition of a material allowance for current expected credit losses, as the Company's analysis of collectability looks at historical experience as well as current and future implications surrounding the ability to collect. Adoption of the updated guidance did not have a material impact on the Company's condensed consolidated financial statements.

In April 2019, the FASB issued ASU 2019-04, *Codification Improvements to Topic 326, Financial Instruments –Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments*. The updated guidance provides clarity regarding measurement of securities without readily determinable fair values. The guidance was adopted on January 1, 2020 and did not have a material impact on the Company's condensed consolidated financial statements.

In August 2018, the FASB issued ASU 2018-15, *Intangibles –Goodwill and Other –Internal-Use Software(Subtopic 350-40)*. The update provided guidance for evaluating the accounting for fees paid by a customer in a cloud computing arrangement that is a service contract. The guidance was adopted on a prospective basis, beginning on January 1, 2020 and it did not have a material impact on the Company's condensed consolidated financial statements.

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820); Disclosure Framework -Changes to the Disclosure Requirements for Fair Value Measurement*. The guidance provided an update to the disclosure requirements for fair value measurements under the scope of ASC 820. The updates were adopted on January 1, 2020 and did not have a material impact on the Company's condensed consolidated financial statements.

In November 2018, the FASB issued ASU 2018-18, *Collaborative Arrangements (Topic 808)*. The update provided additional guidance regarding the interaction between Topic 808 on Collaborative Arrangements and Topic 606 on Revenue Recognition. The guidance was adopted on January 1, 2020 and did not have a material impact on the Company's condensed consolidated financial statements.

In December 2019, the FASB issued ASU No. 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes*. The update simplifies the accounting for income taxes through removing exceptions related to certain intraperiod allocations and deferred tax liabilities; clarifying guidance primarily related to evaluating the step-up tax basis for goodwill in a business combination; and reflecting enacted changes in tax laws or rates in the annual effective tax rate. The amended guidance is effective for interim and annual periods in 2021, however early adoption is permitted. The guidance was early adopted on January 1, 2020 and did not have a material impact on the Company's condensed consolidated financial statements.

In March 2020, the FASB issued ASU 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*. The updated guidance provides optional expedients for applying the requirements of certain topics in the codification for contracts that are modified because of reference rate reform. In addition to the optional expedients, the update includes a general principle that permits an entity to consider contract modifications due to reference rate reform to be an event that does not require contract remeasurement at the modification date or reassessment of a previous accounting determination. The updated guidance is effective for all entities as of March 12, 2020 and through December 31, 2022. The Company adopted the guidance upon issuance on March 12, 2020. There was no impact on the Company's condensed consolidated financial statements.

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**(2) REVENUE**

The Company's revenue is primarily generated by its laboratory testing services utilizing its Cologuard, Oncotype DX, and COVID-19 tests. The services are completed upon release of a patient's test result to the ordering healthcare provider.

The core principle of ASC 606 is that the Company recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services. The Company recognizes revenues from its products in accordance with that core principle, and key aspects considered by the Company include the following:

*Contracts*

The Company's customer is primarily the patient, but the Company does not enter into a formal reimbursement contract with a patient. Accordingly, the Company establishes a contract with a patient in accordance with other customary business practices. However, under some Laboratory Service Agreements ("LSA's) the Company contracts with a direct bill payer who then becomes the Company's customer in these situations.

- Approval of a contract is established via the order submitted by the patient's healthcare provider and the receipt of a sample in the laboratory.
- The Company is obligated to perform its laboratory services upon acceptance of a sample, and the patient and/or applicable payer are obligated to reimburse the Company for services rendered based on the patient's insurance benefits.
- Payment terms are a function of a patient's existing insurance benefits, including the impact of coverage decisions with CMS and applicable reimbursement contracts established between the Company and payers. However, when an order is received for a patient with no active insurance or insurance that does not cover our testing services, the Company requires payment from the patient prior to the commencement of the Company's performance obligations.
- Once the Company releases a patient's test result to the ordering healthcare provider, the Company is legally able to collect payment and bill an insurer, patient, direct bill payer, and/or health system, depending on payer contract status or patient insurance benefit status.
- In the case of some of the Company's LSAs with various organizations, testing services are billed and the direct bill payer is obligated to pay prior to a result. Each provider is contracted to buy an explicit number of testing kits that must be returned to the Company for processing by an established deadline with this deferred revenue being recognized at the point in time results are released to the patient's healthcare provider. In addition, for these types of LSAs all breakage (tests that are not returned to the Company for processing by their contracted deadline) is recognized as revenue upon the expiration of the contracted deadline.
- The Company's consideration can be deemed variable or fixed depending on the structure of specific payer contracts, and the Company considers collection of such consideration to be probable to the extent that it is unconstrained.

*Performance obligations*

A performance obligation is a promise in a contract to transfer a distinct good or service (or a bundle of goods or services) to the customer. The Company's contracts have a single performance obligation, which is satisfied upon rendering of services, which culminates in the release of a patient's test result to the ordering healthcare provider. Or, in the context of some of the Company's LSAs, the satisfaction of the performance obligation occurs at the end of the allotted testing window when a specimen sample is not received back for processing. The Company elects the practical expedient related to the disclosure of unsatisfied performance obligations, as the duration of time between providing testing supplies, the receipt of a specimen sample, and the release of a test result to the ordering healthcare provider is far less than one year.

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*Transaction price*

The transaction price is the amount of consideration that the Company expects to collect in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties (for example, some sales taxes). The consideration expected from a contract with a customer may include fixed amounts, variable amounts, or both.

The consideration derived from the Company's contracts may consist of fixed amounts, variable amounts or both fixed and variable amounts. Fixed consideration is derived from contracts that exist between the Company and direct bill payers who assume the downstream patient billing. The contracted reimbursement rate is deemed to be fixed as the Company expects to fully collect all amounts billed under these relationships. Variable consideration is primarily derived from third party and patient billing and can result due to several factors such as the amount of contractual adjustments, any patient co-payments, deductibles or patient adherence incentives, the existence of secondary payers, and claim denials.

The Company estimates the amount of variable consideration using the expected value method, which represents the sum of probability-weighted amounts in a range of possible consideration amounts. When estimating the amount of variable consideration, the Company considers several factors, such as historical collections experience, patient insurance eligibility and payer reimbursement contracts.

The Company limits the amount of variable consideration included in the transaction price to the unconstrained portion of such consideration. In other words, the Company recognizes revenue up to the amount of variable consideration that is not subject to a significant reversal until additional information is obtained or the uncertainty associated with the additional payments or refunds is subsequently resolved. Differences between original estimates and subsequent revisions, including final settlements, represent changes in the estimate of variable consideration and are included in the period in which such revisions are made. Revenue recognized from changes in transaction prices was \$3.2 million and \$1.8 million for the three months ended June 30, 2020 and 2019, respectively. Revenue recognized from changes in transaction prices was \$8.6 million and \$3.4 million for the six months ended June 30, 2020 and 2019, respectively.

The Company monitors its estimates of transaction price to depict conditions that exist at each reporting date. If the Company subsequently determines that it will collect more or less consideration than it originally estimated for a contract with a patient, it will account for the change as an increase or decrease in the estimate of the transaction price (i.e., an upward or downward revenue adjustment) in the period identified.

When the Company does not have significant historical experience or that experience has limited predictive value, the constraint over estimates of variable consideration may result in no revenue being recognized upon release of the performance obligations associated with the Company's tests, with recognition, generally occurring at the date of cash receipt.

*Allocate transaction price*

The transaction price is allocated entirely to the performance obligation contained within the contract with a patient.

*Point in time recognition*

The Company's single performance obligation is satisfied at a point in time. That point in time is defined as the date a patient's specimen is processed, an outcome is obtained and released to the patient's ordering healthcare provider or, in the context of some of the Company's LSAs, that point in time could be the date the allotted testing window ends if a specimen sample is not received back for processing. The point in time in which revenue is recognized by the Company signifies fulfillment of the performance obligation to the patient or direct bill payer.

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*Disaggregation of Revenue*

The following table presents the Company's revenues disaggregated by revenue source:

(In thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
<b>Screening</b>				
Medicare Parts B & C	\$ 59,583	\$ 103,569	\$ 157,742	\$ 186,486
Commercial	65,080	88,818	174,449	162,169
Other	6,670	7,483	18,593	13,258
<b>Total Screening</b>	<b>131,333</b>	<b>199,870</b>	<b>350,784</b>	<b>361,913</b>
<b>Precision Oncology</b>				
Medicare Parts B & C	\$ 33,994	\$ —	\$ 81,028	\$ —
Commercial	45,420	—	99,810	—
International	19,018	—	39,980	—
Other	4,524	—	10,508	—
<b>Total Precision Oncology</b>	<b>102,956</b>	<b>—</b>	<b>231,326</b>	<b>—</b>
COVID-19 Testing	\$ 34,579	\$ —	\$ 34,579	\$ —
<b>Total</b>	<b>\$ 268,868</b>	<b>\$ 199,870</b>	<b>\$ 616,689</b>	<b>\$ 361,913</b>

Screening revenue primarily includes laboratory service revenue from Cologuard while Precision Oncology revenue primarily includes laboratory service revenue from global Oncotype DX products.

*Contract Balances*

The timing of revenue recognition, billings and cash collections results in billed accounts receivable and deferred revenue on the condensed consolidated balance sheets. Generally, billing occurs subsequent to the release of a patient's test result to the ordering healthcare provider, resulting in an account receivable. However, the Company sometimes receives advance payment from a patient or a direct bill payer before a test result is completed, resulting in deferred revenue. The deferred revenue balance is relieved upon release of the applicable patient's test result to the ordering healthcare provider.

Deferred revenue balances are reported in other current liabilities in the Company's condensed consolidated balance sheets and were \$30.7 million and \$0.6 million as of June 30, 2020 and December 31, 2019, respectively. As of June 30, 2020, \$30.2 million of the Company's deferred revenue balance is a result of the billing terms pursuant to the existing COVID-19 LSAs with customers.

Revenue recognized for the three months ended June 30, 2020 and 2019, which was included in the deferred revenue balance at the beginning of each period was \$19 thousand and \$0.2 million, respectively. Revenue recognized for the six months ended June 30, 2020 and 2019, which was included in the deferred revenue balance at the beginning of each period was \$0.2 million and \$0.3 million, respectively.

*Practical Expedients*

The Company does not adjust the transaction price for the effects of a significant financing component, as at contract inception, the Company expects the collection cycle to be one year or less.

The Company expenses sales commissions when incurred because the amortization period would have been one year or less. These costs are recorded within sales and marketing expenses in the Company's condensed consolidated statements of operations.

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The Company incurs certain other costs that are incurred regardless of whether a contract is obtained. Such costs are primarily related to legal services and patient communications (e.g. adherence reminder letters). These costs are expensed as incurred and recorded within general and administrative expenses in the Company's condensed consolidated statements of operations.

**(3) MARKETABLE SECURITIES**

The following table sets forth the Company's cash, cash equivalents, restricted cash, and marketable securities at June 30, 2020 and December 31, 2019:

(In thousands)	June 30, 2020	December 31, 2019
Cash, cash equivalents, and restricted cash		
Cash and money market	\$ 457,019	\$ 146,932
Cash equivalents	246,907	30,322
Restricted cash (1)	282	274
Total cash, cash equivalents, and restricted cash	704,208	177,528
Marketable securities		
Available-for-sale debt securities	517,346	144,685
Equity securities	1,385	1,716
Total marketable securities	518,731	146,401
Total cash and cash equivalents, restricted cash and marketable securities	\$ 1,222,939	\$ 323,929

(1) Restricted cash is included in other long-term assets on the condensed consolidated balance sheets. There was no restricted cash at June 30, 2019.

Available-for-sale debt securities at June 30, 2020 consisted of the following:

(In thousands)	June 30, 2020			
	Amortized Cost	Gains in Accumulated Other Comprehensive Income (Loss)	Losses in Accumulated Other Comprehensive Income (Loss)	Estimated Fair Value
Cash equivalents				
U.S. government agency securities	\$ 246,905	\$ 4	\$ (2)	\$ 246,907
Total cash equivalents	246,905	4	(2)	246,907
Marketable securities				
Corporate bonds	219,264	1,297	—	220,561
U.S. government agency securities	256,425	102	(1)	256,526
Certificates of deposit	10,000	—	—	10,000
Asset backed securities	22,174	85	—	22,259
Commercial paper	7,996	4	—	8,000
Total marketable securities	515,859	1,488	(1)	517,346
Total available-for-sale securities	\$ 762,764	\$ 1,492	\$ (3)	\$ 764,253

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Available-for-sale debt securities at December 31, 2019 consisted of the following:

(In thousands)	December 31, 2019			
	Amortized Cost	Gains in Accumulated Other Comprehensive Income (Loss)	Losses in Accumulated Other Comprehensive Income (Loss)	Estimated Fair Value
<b>Cash equivalents</b>				
U.S. government agency securities	\$ 30,320	\$ 2	\$ —	\$ 30,322
Total cash equivalents	30,320	2	—	30,322
<b>Marketable securities</b>				
U.S. government agency securities	140,745	10	(73)	140,682
Corporate bonds	4,017	—	(14)	4,003
Total marketable securities	144,762	10	(87)	144,685
Total available-for-sale securities	\$ 175,082	\$ 12	\$ (87)	\$ 175,007

The following table summarizes contractual underlying maturities of the Company's available-for-sale debt securities at June 30, 2020:

(In thousands)	Due one year or less		Due after one year through four years	
	Cost	Fair Value	Cost	Fair Value
<b>Cash equivalents</b>				
U.S. government agency securities	\$ 246,905	\$ 246,907	\$ —	\$ —
Total cash equivalents	246,905	246,907	—	—
<b>Marketable securities</b>				
U.S. government agency securities	249,239	249,295	7,186	7,231
Corporate bonds	162,241	162,992	57,023	57,569
Certificates of deposit	10,000	10,000	—	—
Commercial paper	7,996	8,000	—	—
Asset backed securities	2,390	2,393	19,784	19,866
Total marketable securities	431,866	432,680	83,993	84,666
Total	\$ 678,771	\$ 679,587	\$ 83,993	\$ 84,666

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The following table summarizes the gross unrealized losses and fair values of available-for-sale debt securities in an unrealized loss position as of June 30, 2020, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position:

(In thousands)	Less than one year		One year or greater		Total	
	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss
<b>Cash equivalents</b>						
U.S. government agency securities	\$ 81,934	\$ (2)	\$ —	\$ —	\$ 81,934	\$ (2)
Total cash equivalents	81,934	(2)	—	—	81,934	(2)
<b>Marketable securities</b>						
U.S. government agency securities	99,975	(1)	—	—	99,975	(1)
Total marketable securities	99,975	(1)	—	—	99,975	(1)
<b>Total available-for-sale securities</b>	<b>\$ 181,909</b>	<b>\$ (3)</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 181,909</b>	<b>\$ (3)</b>

The Company evaluates investments, including investments in privately-held companies, that are in an unrealized loss position for impairment as a result of credit loss. It was determined that no credit losses exist as of June 30, 2020 and December 31, 2019 because the change in market value for those securities in an unrealized loss position has resulted from fluctuating interest rates rather than a deterioration of the credit worthiness of the issuers. The Company recorded a realized gain on available-for-sale debt securities of \$0.2 million and \$0.2 million for the three months ended June 30, 2020 and 2019, respectively, net of insignificant realized losses. The Company recorded a realized gain on available-for-sale debt securities of \$0.1 million and \$0.3 million for the six months ended June 30, 2020 and 2019, respectively, net of insignificant realized losses.

The Company recorded a gain of \$0.4 million and a loss of \$0.3 million from its equity securities for the three and six months ended June 30, 2020 as compared to no gain or loss for the three and six months ended June 30, 2019.

The gains and losses recorded are included in investment income, net in the Company's condensed consolidated statements of operations.

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**(4) PROPERTY, PLANT AND EQUIPMENT**

The estimated useful lives of property, plant and equipment are as follows:

(In thousands)	Estimated Useful Life	June 30, 2020	December 31, 2019
Property, plant and equipment			
Land	n/a	\$ 4,466	\$ 4,466
Leasehold and building improvements	(1)	111,778	80,352
Land improvements	15 years	2,399	1,766
Buildings	30 - 40 years	165,926	112,815
Computer equipment and computer software	3 years	74,447	65,323
Laboratory equipment	3 - 10 years	130,323	104,008
Furniture and fixtures	3 - 10 years	22,698	14,539
Assets under construction	n/a	61,628	149,687
Property, plant and equipment, at cost		573,665	532,956
Accumulated depreciation		(110,228)	(77,631)
Property, plant and equipment, net		<u>\$ 463,437</u>	<u>\$ 455,325</u>

(1) Lesser of remaining lease term, building life, or estimated useful life.

Depreciation expense for the three months ended June 30, 2020 and 2019 was \$17.6 million and \$7.1 million, respectively. Depreciation expense for the six months ended June 30, 2020 and 2019 was \$33.4 million and \$13.4 million, respectively.

At June 30, 2020, the Company had \$61.6 million of assets under construction which consisted of \$11.5 million in laboratory equipment, \$43.9 million of building and leasehold improvements, \$5.6 million in capitalized costs related to software projects, and \$0.6 million related to furniture and fixtures. Depreciation will begin on these assets once they are placed into service. The Company expects to incur an additional \$2.9 million to complete the laboratory equipment, \$6.7 million to complete the building projects and leasehold improvements, \$2.0 million to complete the software projects, and minimal costs to complete the furniture and fixtures. These projects are expected to be completed throughout 2020 and 2021.

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**(5) INTANGIBLE ASSETS AND GOODWILL****Intangible Assets**

The following table summarizes the net-book-value and estimated remaining life of the Company's intangible assets as of June 30, 2020:

(In thousands)	Weighted Average Remaining Life (Years)	Cost	Accumulated Amortization	Net Balance at June 30, 2020
<b>Finite-lived intangible assets</b>				
Trade name	15.4	\$ 100,700	\$ (4,109)	\$ 96,591
Customer relationships	13.3	2,700	(314)	2,386
Patents	8.4	22,689	(7,105)	15,584
Acquired developed technology	9.5	814,171	(52,766)	761,405
Supply agreements	7.0	30,000	(2,549)	27,451
Internally developed technology	2.3	1,796	(590)	1,206
Total finite-lived intangible assets		972,056	(67,433)	904,623
In-process research and development	n/a	200,000	—	200,000
Internally developed technology in process	n/a	492	—	492
<b>Total intangible assets</b>		<b>\$ 1,172,548</b>	<b>\$ (67,433)</b>	<b>\$ 1,105,115</b>

The following table summarizes the net-book-value and estimated remaining life of the Company's intangible assets as of December 31, 2019:

(In thousands)	Weighted Average Remaining Life (Years)	Cost	Accumulated Amortization	Net Balance at December 31, 2019
<b>Finite-lived intangible assets</b>				
Trade name	15.9	\$ 100,700	\$ (961)	\$ 99,739
Customer relationships	13.6	2,700	(224)	2,476
Patents	8.8	22,690	(5,974)	16,716
Acquired developed technology	9.9	806,371	(12,345)	794,026
Supply agreements	7.5	30,000	(571)	29,429
Internally developed technology	2.5	1,229	(336)	893
Total finite-lived intangible assets		963,690	(20,411)	943,279
In-process research and development	n/a	200,000	—	200,000
Internally developed technology in process	n/a	271	—	271
<b>Total intangible assets</b>		<b>\$ 1,163,961</b>	<b>\$ (20,411)</b>	<b>\$ 1,143,550</b>

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As of June 30, 2020, the estimated future amortization expense associated with the Company's finite-lived intangible assets for each of the five succeeding fiscal years is as follows:

<b>(In thousands)</b>	
2020	\$ 47,158
2021	94,217
2022	94,012
2023	93,724
2024	93,345
Thereafter	482,167
	<u>\$ 904,623</u>

The Company's acquired intangible assets are being amortized on a straight-line basis over the estimated useful life. The amortization expense recorded from these intangible assets is reported in amortization of acquired intangible assets on the condensed consolidated statements of operations.

#### *Goodwill*

As a result of the the acquisition of Paradigm Diagnostics, Inc. ("Paradigm") and Viomics, Inc. ("Viomics") in March 2020, the Company recognized goodwill of \$30.4 million, which includes an immaterial post-acquisition adjustment to goodwill in the second quarter of 2020. Refer to the Company's 2019 10-K for further discussion on goodwill recorded from previous business combinations.

The Company evaluates goodwill for possible impairment in accordance with ASC 350 on an annual basis during the fourth quarter, or more frequently if events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. Qualitative factors considered in this assessment include industry and market conditions, overall financial performance, and other relevant events and factors affecting the Company's business. Based on the qualitative assessment, if it is determined that the fair value of goodwill is more likely than not to be less than its carrying amount, the fair value of a reporting unit will be calculated and compared with its carrying amount and an impairment charge will be recognized for the amount that the carrying value exceeds the fair value. Due to the impact of COVID-19 on the Company's operations, the Company performed a qualitative assessment of goodwill to determine if an event indicating impairment was present. No such indicators were identified as of June 30, 2020. There were no impairment losses for the periods ended June 30, 2020 and December 31, 2019. During the six months ended June 30, 2020, the Company recognized a measurement period adjustment to goodwill of \$4.0 million related to an increase in Genomic Health's pre-acquisition deferred tax liability due to finalization of certain income-tax related items.

The change in the carrying amount of goodwill for the periods ended June 30, 2020 and December 31, 2019 is as follows:

<b>(In thousands)</b>	
Balance, January 1, 2019	\$ 17,279
Genomic Health acquisition	1,185,918
Balance, December 31, 2019	<u>1,203,197</u>
Paradigm & Viomics acquisition	30,431
Genomic Health acquisition adjustment	4,044
Balance, June 30, 2020	<u>\$ 1,237,672</u>

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**(6) FAIR VALUE MEASUREMENTS**

The three levels of the fair value hierarchy established are as follows:

- Level 1** Quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access as of the reporting date. Active markets are those in which transactions for the asset or liability occur in sufficient frequency and volume to provide pricing information on an ongoing basis.
- Level 2** Pricing inputs other than quoted prices in active markets included in Level 1, which are either directly or indirectly observable as of the reporting date. These include quoted prices for similar assets or liabilities in active markets and quoted prices for identical or similar assets or liabilities in markets that are not active.
- Level 3** Unobservable inputs that reflect the Company's assumptions about the assumptions that market participants would use in pricing the asset or liability. Unobservable inputs shall be used to measure fair value to the extent that observable inputs are not available.

The following table presents the Company's fair value measurements as of June 30, 2020 along with the level within the fair value hierarchy in which the fair value measurements in their entirety fall.

(In thousands)	Fair Value at June 30, 2020	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Cash, cash equivalents, and restricted cash</b>				
Cash and money market	\$ 457,019	\$ 457,019	\$ —	\$ —
U.S. government agency securities	246,907	—	246,907	—
Restricted cash	282	282	—	—
<b>Marketable securities</b>				
Corporate bonds	220,561	—	220,561	—
U.S. government agency securities	256,526	—	256,526	—
Certificates of deposit	10,000	—	10,000	—
Asset backed securities	22,259	—	22,259	—
Commercial paper	8,000	—	8,000	—
Equity Securities	1,385	1,385	—	—
<b>Liabilities</b>				
Contingent consideration	(2,551)	—	—	(2,551)
<b>Total</b>	<b>\$ 1,220,388</b>	<b>\$ 458,686</b>	<b>\$ 764,253</b>	<b>\$ (2,551)</b>

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The following table presents the Company's fair value measurements as of December 31, 2019 along with the level within the fair value hierarchy in which the fair value measurements in their entirety fall.

(In thousands)	Fair Value at December 31, 2019	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Cash and cash equivalents</b>				
Cash and money market	\$ 146,932	\$ 146,932	\$ —	\$ —
U.S. government agency securities	30,322	—	30,322	—
Restricted cash	274	274	—	—
<b>Marketable securities</b>				
U.S. government agency securities	140,682	—	140,682	—
Corporate bonds	4,003	—	4,003	—
Equity securities	1,716	1,716	—	—
<b>Liabilities</b>				
Contingent consideration	(2,879)	—	—	(2,879)
<b>Total</b>	<b>\$ 321,050</b>	<b>\$ 148,922</b>	<b>\$ 175,007</b>	<b>\$ (2,879)</b>

There have been no changes in valuation techniques or transfers between fair value measurement levels during the periods ended June 30, 2020 and December 31, 2019. The fair value of Level 2 instruments classified as cash equivalents and marketable debt securities are valued using a third-party pricing agency where the valuation is based on observable inputs including pricing for similar assets and other observable market factors. The Company's marketable equity security investment in Biocartis is classified as a Level 1 instrument. See Note 7 for additional information on Biocartis.

**Contingent Consideration**

In connection with the Biomatrix Acquisition, a contingent earn-out liability was created to account for an additional \$20.0 million in contingent consideration that could be earned based upon certain revenue milestones being met. The following table provides a roll-forward of the fair values of the contingent consideration, which includes Level 3 measurements:

(In thousands)	Contingent consideration
Balance, January 1, 2020	\$ (2,879)
Changes in fair value	—
Gains (losses) recognized in earnings	—
Payments	328
Balance, June 30, 2020	<b>\$ (2,551)</b>

As of June 30, 2020, the fair value of the contingent earn-out liability is classified as a component of other long-term liabilities in the Company's condensed consolidated balance sheet.

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This fair value measurement of contingent consideration related to the Biomatrix acquisition was categorized as a Level 3 liability, as the measurement amount is based primarily on significant inputs not observable in the market. The Company evaluates the fair value of expected contingent consideration and the corresponding liability each annual reporting period using the Monte Carlo Method, which is consistent with the initial measurement of the expected Biomatrix Acquisition earn-out liability. The Company estimates projections during the earn-out period utilizing various potential pay-out scenarios. Probabilities were applied to each potential scenario and the resulting values were discounted using a rate that considers weighted average cost of capital as well as a specific risk premium associated with the riskiness of the earn-out itself, the related projections, and the overall business.

#### **Non-Marketable Equity Investment**

The Company has non-marketable equity investments which are initially recorded at the estimated fair value based on observable transactions. The Company remeasures the fair value only when an observable transaction occurs during the period that would suggest a change in the carrying value of the investment. As of June 30, 2020 and December 31, 2019, the Company had non-marketable equity investments of \$11.8 million, which are classified as a component of other long-term assets in the Company's condensed consolidated balance sheets. The Company's preferred stock investment in Epic Sciences represents \$10.8 million of the total non-marketable equity investments. There have been no observable transactions during the three and six months ended June 30, 2020 and 2019. See Note 7 for additional information regarding the terms of the investment in Epic Sciences.

#### **Fair Value of Long-Term Debt and Convertible Notes**

The Company measures the fair value of its convertible notes and long-term debt for disclosure purposes. The following table summarizes the Company's outstanding convertible notes and long-term debt:

(In thousands)	June 30, 2020		December 31, 2019	
	Carrying Amount (1)	Fair Value	Carrying Amount (1)	Fair Value
2028 Convertible notes (2)	\$ 786,711	\$ 1,101,413	\$ —	\$ —
2027 Convertible notes (2)	498,707	774,328	483,909	843,741
2025 Convertible notes (2)	248,965	419,015	319,696	592,482
Construction loan (3)	24,263	24,263	24,866	24,866

(1) The carrying amounts presented are net of debt discounts and debt issuance costs (see Note 12 and Note 15 of the condensed consolidated financial statements for further information).

(2) The fair values are based on observable market prices for this debt, which is traded in active markets and therefore is classified as a Level 2 fair value measurement. A portion of the 2025 convertible notes were settled in 2020 resulting in a decrease in the liability.

(3) The carrying amount of the construction loan approximates fair value due to the short-term nature of this instrument. The construction loan is privately held with no public market for this debt and therefore is classified as a Level 3 fair value measurement. The change in the fair value was due to payments made on the loan resulting in a decrease in the liability.

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**(7) LICENSE AND COLLABORATION AGREEMENTS**

The Company licenses certain technologies that are, or may be, incorporated into its technology under several license agreements, as well as the rights to commercialize certain diagnostic tests through collaboration agreements. Generally, the license agreements require the Company to pay royalties based on net revenues received using the technologies and may require minimum royalty amounts or maintenance fees.

**Mayo**

In June 2009 the Company entered into a license agreement with Mayo Foundation for Medical Education and Research (“Mayo”). The Company’s license agreement with Mayo most recently amended in January 2019. Under the license agreement, Mayo granted the Company an exclusive, worldwide license to certain Mayo patents and patent applications, as well as a non-exclusive, worldwide license with regard to certain Mayo know-how. The scope of the license covers any screening, surveillance or diagnostic test or tool for use in connection with any type of cancer, pre-cancer, disease or condition.

The licensed Mayo patents and patent applications contain both method and composition claims that relate to sample processing, analytical testing and data analysis associated with nucleic acid screening for cancers and other diseases. The jurisdictions covered by these patents and patent applications include the U.S., Australia, Canada, the European Union, China, Japan and Korea. Under the license agreement, the Company assumed the obligation and expense of prosecuting and maintaining the licensed Mayo patents and is obligated to make commercially reasonable efforts to bring to market products using the licensed Mayo intellectual property.

Pursuant to the Company’s agreement with Mayo, the Company is required to pay Mayo a low-single-digit royalty on the Company’s net sales of current and future products using the licensed Mayo intellectual property each year during the term of the Mayo agreement.

The license agreement will remain in effect, unless earlier terminated by the parties in accordance with the agreement, until the last of the licensed patents expires in 2037 (or later, if certain licensed patent applications are issued). However, if the Company is still using the licensed Mayo know-how or certain Mayo-provided biological specimens or their derivatives on such expiration date, the term shall continue until the earlier of the date the Company stops using such know-how and materials and the date that is five years after the last licensed patent expires. The license agreement contains customary termination provisions and permits Mayo to terminate the license agreement if the Company sues Mayo or its affiliates, other than any such suit claiming an uncured material breach by Mayo of the license agreement.

In addition to granting the Company a license to the covered Mayo intellectual property, Mayo provides the Company with product development and research and development assistance pursuant to the license agreement and other collaborative arrangements. In connection with this collaboration, the Company incurred charges of \$1.0 million and \$1.1 million for the three months ended June 30, 2020 and 2019, respectively. The Company incurred charges of \$1.9 million and \$2.6 million for the six months ended June 30, 2020 and 2019, respectively. The charges incurred in connection with this collaboration are recorded in research and development expenses in the Company’s condensed consolidated statements of operations. Certain of Mayo’s obligations to provide development assistance expired in January 2020. The Company and Mayo are in discussions to amend the license agreement to extend that date.

**Epic Sciences**

In June 2016, Genomic Health (now a wholly-owned subsidiary of the Company) entered into a collaboration agreement with Epic Sciences, which was superseded and replaced in March 2019 by a license agreement and laboratory services agreement with Epic Sciences, under which Genomic Health was granted exclusive distribution rights to commercialize Epic Sciences’ AR-V7 Nucleus Detect test in the United States, which is marketed as Oncotype DX AR-V7 Nucleus Detect. The Company has primary responsibility, in accordance with applicable laws and regulations, for marketing and promoting the test, order fulfillment, billing and collections of receivables, claims appeals, customer support, and providing and maintaining order management systems for the test. Epic Sciences is

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responsible for performing all tests, performing studies including analytic and clinical validation studies, and seeking Medicare coverage and a Medicare payment rate from the CMS for the test. The license and laboratory service agreement has a term of ten years from June 2016, unless terminated earlier under certain circumstances. The Oncotype DX AR-V7 Nucleus Detect test became commercially available in February 2018. The Company recognizes revenues for the test performed under this arrangement and Epic Sciences receives a fee per test performed that represents the fair market value for the testing services they perform.

As of June 30, 2020 and December 31, 2019, the Company owns 18,258,838 shares of preferred stock of Epic Sciences recorded at a fair value of \$10.8 million which is included in other-long term assets on the Company's condensed consolidated balance sheets. The Company has concluded it is not the primary beneficiary and thus has not consolidated the investee pursuant to the requirements of ASC 810, Consolidation. The Company will continue to assess its investment and future commitments to the investee and to the extent its relationship with the investee changes, may be required to consolidate the investee in future periods. The Company determined that the investment is an equity investment for which the Company does not have the ability to exercise significant influence. The Company adjusts the carrying value of its non-marketable equity securities for changes from observable transactions for identical or similar investments of the same issuer, less impairment. All gains and losses on non-marketable equity securities, realized and unrealized, are recognized in other income (expense) in the condensed consolidated statements of operations.

**Biocartis N.V.**

In September 2017, Genomic Health entered into an exclusive license and development agreement with Biocartis, a molecular diagnostics company based in Belgium, to develop and commercialize an in vitro diagnostic ("IVD") version of the Oncotype DX Breast Recurrence Score test on the Biocartis Idylla platform. Under the terms of the license and development agreement, the Company has an exclusive, worldwide, royalty-bearing license to develop and commercialize an IVD version of the Oncotype DX Breast Recurrence Score test on the Biocartis Idylla platform, and an option to expand the collaboration to include additional tests in oncology and urology. The Company has primary responsibility for developing, validating and obtaining regulatory authorizations and registrations for IVD Oncotype DX tests to be performed on the Idylla platform. The Company is also responsible for manufacturing and commercialization activities with respect to such tests.

Pursuant to the license and development agreement, Genomic Health recorded a one-time upfront license and option fee of \$3.2 million. In December 2017, Genomic Health purchased 270,000 ordinary shares of Biocartis, a public company listed on the Euronext exchange, for a total cost of \$4.0 million. This investment was subject to a lock-up agreement that expired in December 2018. The investment has been recognized at fair value, which the Company estimated to be \$1.4 million and \$1.7 million as of June 30, 2020 and December 31, 2019, respectively, and is included in marketable securities on the Company's condensed consolidated balance sheets.

Under a November 2018 addendum to the license and development agreement, the Company exercised its option to expand the collaboration to include tests in urology and obtained a right of first refusal to add a test for the non-invasive detection of prostate cancer in a pre-biopsy setting.

Additional terms of the license and development agreement and the addendum include the Company's obligation to pay Biocartis an aggregate of €2.5 million in cash upon achievement of certain milestones and €2.0 million for the expansion of the collaboration to include additional tests in oncology. In addition, the Company will pay royalties based primarily on the future sales volumes of the Company's tests performed on the Idylla platform.

**(8) PFIZER PROMOTION AGREEMENT**

In August 2018, the Company entered into a Promotion Agreement ("Promotion Agreement") with Pfizer Inc. ("Pfizer"). Under the terms of the Promotion Agreement, Pfizer promotes Cologuard and provides certain sales, marketing, analytical and other commercial operations support. The Company agreed to pay Pfizer for promotion, sales and marketing costs incurred on behalf of the Company. The Company incurred charges of \$21.1 million and \$16.6 million for promotion, sales and marketing services performed by Pfizer on behalf of the Company during the

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three months ended June 30, 2020 and 2019, respectively. The Company incurred charges of \$40.5 million and \$33.9 million for promotion, sales and marketing services performed by Pfizer on behalf of the Company during the six months ended June 30, 2020 and 2019, respectively. These costs are recorded in sales and marketing in the Company's condensed consolidated statements of operations. The Company also agreed to pay Pfizer a service fee based on incremental gross profits over specified baselines during the term of the Promotion Agreement and royalties for Cologuard related revenues for a specified period after the expiration or termination of the Promotion Agreement. The initial term of the Promotion Agreement runs through December 31, 2021. The Company incurred charges of \$2.1 million and \$19.4 million for this service fee during the three months ended June 30, 2020 and 2019, respectively. The Company incurred charges of \$21.7 million and \$38.6 million for this service fee during the six months ended June 30, 2020 and 2019, respectively. These costs are recorded in sales and marketing in the Company's condensed consolidated statements of operations.

## (9) STOCKHOLDERS' EQUITY

### Convertible Notes Settlement Stock Issuance

In March 2019, the Company used cash of \$494.1 million and an aggregate of 2.2 million shares of the Company's common stock valued at \$182.4 million for total consideration of \$676.5 million to settle \$493.4 million of the 2025 convertible notes. Refer to Note 15 for further discussion of this settlement transaction.

### Genomic Health Combination Stock Issuance

In November 2019, the Company completed the combination with Genomic Health in a cash and stock transaction valued at \$2.5 billion. Of the \$2.5 billion purchase price, \$1.4 billion was settled through the issuance of 17.0 million shares of common stock. The Company incurred \$0.4 million in stock issuance costs as part of the transaction. Refer to Note 16 for further discussion of the consideration transferred as part of the combination with Genomic Health.

### Paradigm and Viomics Acquisition Stock Issuance

In March 2020, the Company completed the acquisitions of Paradigm and Viomics. The purchase price for these acquisitions consisted of cash and stock valued at \$40.4 million. Of the \$40.4 million purchase price, \$32.2 million is expected to be settled through the issuance of 0.4 million shares of common stock. Of the \$32.2 million that will be settled through the issuance of common stock, \$28.6 million was issued in March 2020, and the remainder was withheld and may become issuable as additional merger consideration on June 3, 2021 subject to the terms and conditions of the acquisition agreements.

### Changes in Accumulated Other Comprehensive Income (Loss)

The amount recognized in accumulated other comprehensive income (loss) ("AOCI") for the six months ended June 30, 2020 were as follows:

(In thousands)	Foreign Currency Translation Adjustments	Unrealized Gain (Loss) on Marketable Securities	Accumulated Other Comprehensive Income (Loss)
Balance at December 31, 2019	\$ (25)	\$ (75)	\$ (100)
Other comprehensive income (loss) before reclassifications	—	1,564	1,564
Amounts reclassified from accumulated other comprehensive loss	25	—	25
Net current period change in accumulated other comprehensive loss	25	1,564	1,589
Balance at June 30, 2020	\$ —	\$ 1,489	\$ 1,489

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The amounts recognized in AOCI for the six months ended June 30, 2019 were as follows:

(In thousands)	Foreign Currency Translation Adjustments	Unrealized Gain (Loss) on Marketable Securities	Accumulated Other Comprehensive Income (Loss)
Balance at December 31, 2018	\$ (25)	\$ (1,397)	\$ (1,422)
Other comprehensive loss before reclassifications	—	3,784	3,784
Amounts reclassified from accumulated other comprehensive loss	—	344	344
Net current period change in accumulated other comprehensive loss, before tax	—	4,128	4,128
Income tax expense related to items of other comprehensive income	—	(984)	(984)
Balance at June 30, 2019	\$ (25)	\$ 1,747	\$ 1,722

Amounts reclassified from AOCI for the six months ended June 30, 2020 and 2019 were as follows:

Details about AOCI Components (In thousands)	Affected Line Item in the Statements of Operations	Six Months Ended June 30,	
		2020	2019
Change in value of available-for-sale investments			
Sales and maturities of available-for-sale investments	Investment income, net	\$ —	\$ 344
Foreign currency adjustment	General and administrative	25	—
Total reclassifications		\$ 25	\$ 344

## (10) STOCK-BASED COMPENSATION

### Stock-Based Compensation Plans

The Company maintains the 2010 Omnibus Long-Term Incentive Plan (As Amended and Restated Effective July 27, 2017), the 2019 Omnibus Long-Term Incentive Plan, the 2010 Employee Stock Purchase Plan, the 2016 Inducement Award Plan and the 2000 Stock Option and Incentive Plan (collectively, the “Stock Plans”).

### Stock-Based Compensation Expense

The Company records stock-based compensation expense in connection with the amortization of restricted stock and restricted stock unit awards (“RSUs”), stock purchase rights granted under the Company’s employee stock purchase plan and stock options granted to employees, non-employee consultants and non-employee directors. The Company recorded approximately \$40.0 million and \$20.1 million in stock-based compensation expense during the three months ended June 30, 2020 and 2019, respectively. The Company recorded approximately \$69.6 million and \$36.3 million in stock-based compensation expense during the six months ended June 30, 2020 and 2019, respectively.

In February 2019, the Company issued performance-based equity awards to certain employees which vest upon the achievement of certain performance goals, including financial performance targets and operational milestones. Determining the appropriate amount to expense based on the anticipated achievement of the stated goals requires judgment, including forecasting future financial results. The estimate of the timing of the expense recognition is revised periodically based on the probability of achieving the goals and adjustments are made as appropriate. The cumulative impact of any revision is reflected in the period of the change. If the financial performance targets and operational milestones are not achieved, the award would not vest, so no compensation cost would be recognized and any previously recognized stock-based compensation expense would be reversed.

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In June 2020, the Company modified certain of the operational milestones within the outstanding performance-based equity awards, which were not deemed to have an impact on vesting and no incremental stock-based compensation expense was recorded for the three and six months ended June 30, 2020. This modification impacted awards held by 36 employees.

In connection with the combination with Genomic Health, the Company accelerated the vesting of shares of previously unvested stock options and restricted stock units for employees with qualifying termination events. During the three and six months ended June 30, 2020, the Company accelerated 9,132 shares and 43,480 shares of previously unvested stock options, respectively, and 10,525 shares and 28,814 shares of previously unvested restricted stock units, respectively, and recognized the additional non-cash stock-based compensation expense of \$0.6 million and \$3.5 million, respectively, for the accelerated awards.

As a result of workforce reductions in April 2020 due to the COVID-19 pandemic, the Company accelerated the vesting of previously unvested stock options and restricted stock units for employees that were terminated. The Company accelerated 708 shares of previously unvested stock options and 33,123 shares of previously unvested restricted stock units, and recognized the additional non-cash stock-based compensation expense of \$1.8 million for the accelerated awards.

**Determining Fair Value**

**Valuation and Recognition** – The fair value of each service-based option award is estimated on the date of grant using the Black-Scholes option-pricing model. The fair value of service-based awards for each restricted stock unit award is determined on the date of grant using the closing stock price on that day. The estimated fair value of these awards is recognized to expense using the straight-line method over the vesting period. For awards that vest when a performance condition is achieved, the Company performs an evaluation of internal and external factors to determine the number of shares that are most likely to vest based on the probability of what performance conditions will be met. The Black-Scholes pricing model utilizes the following assumptions:

**Expected Term** – Expected life of an option award is the average length of time over which the Company expects employees will exercise their options, which is based on historical experience with similar grants. Expected life of a market measure-based award is based on the applicable performance period.

**Expected Volatility** - Expected volatility is based on the Company's historical stock volatility data over the expected term of the awards.

**Risk-Free Interest Rate** - The Company bases the risk-free interest rate on the implied yield currently available on U.S. Treasury zero-coupon issues with an equivalent expected term.

**Forfeitures** - The Company recognizes forfeitures as they occur.

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The fair value of each option is based on the assumptions in the following table:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
<b>Option Plan Shares</b>				
Risk-free interest rates	(1)	(1)	0.98% - 1.47%	2.54% - 2.59%
Expected term (in years)	(1)	(1)	4.68 - 6.15	6.28
Expected volatility	(1)	(1)	65.67% - 77.51%	64.95% - 65.00%
Dividend yield	(1)	(1)	—%	—%
Weighted average fair value per share of options granted during the period	(1)	(1)	\$58.77	\$57.11
<b>ESPP Shares</b>				
Risk-free interest rates	0.12% - 0.2%	2.31% - 2.44%	0.12% - 0.2%	2.31% - 2.44%
Expected term (in years)	0.5 - 2	0.5 - 2	0.5 - 2	0.5 - 2
Expected volatility	63.7% - 89.0%	55.0% - 57.6%	63.7% - 89.0%	55.0% - 57.6%
Dividend yield	—%	—%	—%	—%
Weighted average fair value per share of stock purchase rights granted during the period	\$30.60	\$35.91	\$30.60	\$35.91

(1) The Company did not grant options under its 2010 Omnibus Long-Term Incentive Plan or 2019 Omnibus Long-Term Incentive Plan during the period indicated.

**Stock Option, Restricted Stock, and Restricted Stock Unit Activity**

A summary of stock option activity under the Stock Plans during the six months ended June 30, 2020 is as follows:

Options	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term(Years)	Aggregate Intrinsic Value(1)
<i>(Aggregate intrinsic value in thousands)</i>				
Outstanding, January 1, 2020	2,700,293	\$ 34.01	2.9	
Granted	309,143	97.66		
Exercised	(368,720)	29.67		
Forfeited	(65,438)	83.87		
Outstanding, June 30, 2020	2,575,278	\$ 41.01	6.5	\$ 123,979
Exercisable, June 30, 2020	1,653,394	\$ 26.10	5.5	\$ 101,761

(1) The total intrinsic value of options exercised during the six months ended June 30, 2020 and 2019 was \$20.4 million and \$22.6 million, respectively, determined as of the date of exercise.

A summary of restricted stock and restricted stock unit activity under the Stock Plans during the six months ended June 30, 2020 is as follows:

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	Restricted Shares and RSUs	Weighted Average Grant Date Fair Value
Outstanding, January 1, 2020	4,384,005	\$ 63.41
Granted	1,835,695	92.25
Released	(1,350,088)	47.00
Forfeited	(208,076)	79.45
Outstanding, June 30, 2020	4,661,536	\$ 78.84

As of June 30, 2020, there was \$300.9 million of total unrecognized compensation cost related to non-vested share-based compensation arrangements granted under all equity compensation plans. The Company expects to recognize that cost over a weighted average period of 3.0 years.

### (11) NEW MARKET TAX CREDIT

During the fourth quarter of 2014, the Company received approximately \$2.4 million in net proceeds from financing agreements related to working capital and capital improvements at one of its Madison, Wisconsin facilities. This financing arrangement was structured with an unrelated third-party financial institution (the “Investor”), an investment fund, and its majority owned community development entity in connection with the Company’s participation in transactions qualified under the federal New Markets Tax Credit (“NMTC”) program, pursuant to Section 45D of the Internal Revenue Code of 1986, as amended. The Company is required to be in compliance through December 2021 with various regulations and contractual provisions that apply to the NMTC arrangement. Noncompliance with applicable requirements could result in the Investor’s projected tax benefits not being realized and, therefore, require the Company to indemnify the Investor for any loss or recapture of NMTC related to the financing until such time as the recapture provisions have expired under the applicable statute of limitations. The Company does not anticipate any credit recapture will be required in connection with this financing arrangement.

The Investor and its majority owned community development entity are considered Variable Interest Entities (“VIEs”) and the Company is the primary beneficiary of the VIEs. This conclusion was reached based on the following:

- the ongoing activities of the VIEs — collecting and remitting interest and fees and NMTC compliance — were all considered in the initial design and are not expected to significantly affect performance throughout the life of the VIE;
- contractual arrangements obligate the Company to comply with NMTC rules and regulations and provide various other guarantees to the Investor and community development entity;
- the Investor lacks a material interest in the underlying economics of the project; and
- the Company is obligated to absorb losses of the VIEs.

Because the Company is the primary beneficiary of the VIEs, they have been included in the consolidated financial statements. There are no other assets, liabilities or transactions in these VIEs outside of the financing transactions executed as part of the NMTC arrangement.

### (12) DEBT

#### Construction Loan Agreement

During December 2017, the Company entered into a loan agreement with Fifth Third Bank (formerly MB Financial Bank, N.A.) (the “Construction Loan Agreement”), which provides the Company with a non-revolving construction loan (the “Construction Loan”) of \$25.6 million. The Company is using the Construction Loan proceeds to finance the construction of an additional clinical laboratory and related facilities in Madison, Wisconsin. The Construction Loan is collateralized by the additional clinical laboratory and related facilities.

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Pursuant to the Construction Loan Agreement, funds drawn will bear interest at a rate equal to the sum of the 1-month LIBOR rate plus 2.25 percent. Regular monthly payments are interest-only for the first 24 months, with further payments based on a 20-year amortization schedule. Amounts borrowed pursuant to the Construction Loan Agreement may be prepaid at any time without penalty. The maturity date of the Construction Loan Agreement is December 10, 2022.

In November 2017, Fifth Third Bank, on behalf of the Company, issued an Irrevocable Standby Letter of Credit in the amount of \$0.6 million in favor of the City of Madison, Wisconsin (the "City Letter of Credit"). The City Letter of Credit is deemed to have been issued pursuant to the Construction Loan Agreement. The amount of the City Letter of Credit will reduce, dollar for dollar, the amount available for borrowing under the Construction Loan Agreement.

As a condition to Fifth Third's initial advance of loan proceeds under the Construction Loan Agreement, the Company was required to first invest at least \$16.4 million of its own cash into the construction project. The Company fulfilled its required initial investment and made its first draw on the Construction Loan in June 2018. In December 2019, the Company began making monthly payments towards the outstanding principal balance plus accrued interest. As of June 30, 2020 and December 31, 2019, the outstanding balance was \$24.5 million and \$25.0 million, respectively, including \$0.7 million of interest incurred, which is accrued for as an interest reserve and represents a portion of the loan balance. The Company capitalized the \$0.7 million of interest to the construction project. The Company incurred approximately \$0.2 million of debt issuance costs related to the Construction Loan, which are recorded as a direct deduction from the liability. The debt issuance costs are being amortized over the life of the Construction Loan.

The Construction Loan Agreement was amended effective June 30, 2020 to include a financial covenant to maintain a minimum liquidity of \$250 million and remove the minimum tangible net worth covenant. Prior to the amendment, the Company was not in compliance with a minimum tangible net worth covenant due to the combination with Genomic Health. As of June 30, 2020, the Company is in compliance with the covenant included in the amended agreement.

**Tax Increment Financing Loan Agreements**

The Company entered into two separate Tax Increment Financing Loan Agreements ("TIFs") in February 2019 and June 2019 with the City of Madison, Wisconsin. The TIFs provide for \$4.6 million of financing in the aggregate. In return for the loans, the Company is obligated to create and maintain 500 full-time jobs over a five-year period, starting on the date of occupancy of the buildings constructed. In the event that the job creation goals are not met, the Company would be required to pay a penalty.

The Company records the earned financial incentives as the full-time equivalent positions are filled. The amount earned is recorded as a liability and amortized as a reduction of operating expenses over a two-year period, which is the timeframe when the TIFs will be repaid through property taxes.

By the end of 2019, the Company had earned and received payment of \$4.6 million from the City of Madison. As of June 30, 2020 and December 31, 2019, the Company has recorded a liability of \$1.1 million and \$2.7 million, respectively, in other current liabilities on the Company's condensed consolidated balance sheets, reflecting when the expected benefit of the financial benefits amortization will reduce future operating expenses.

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**(13) COMMITMENTS AND CONTINGENCIES****Leases**

Supplemental disclosure of cash flow information related to the Company's cash and non-cash activities with its operating leases are as follows:

(In thousands)	Six Months Ended June 30, 2020	
	2020	2019
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	\$ 12,289	\$ 2,419
Non-cash investing and financing activities:		
Right-of-use assets obtained in exchange for new operating lease liabilities (1)	13,024	20,511

(1) For the six months ended June 30, 2019, this includes right-of-use assets obtained from the initial adoption of ASC 842 of approximately \$17.9 million.

As of June 30, 2020 and December 31, 2019, the Company's right-of-use assets are \$132.8 million and \$126.4 million, respectively, which are reported in operating lease right-of-use assets in the Company's condensed consolidated balance sheets. As of June 30, 2020, the Company has outstanding lease obligations of \$136.5 million, of which \$9.9 million is reported in operating lease liabilities, current portion and \$126.6 million is reported in operating lease liabilities, less current portion in the Company's condensed consolidated balance sheets. As of December 31, 2019, the Company had outstanding lease obligations of \$126.6 million, of which \$7.9 million is reported in operating lease liabilities, current portion and \$118.7 million is reported in operating lease liabilities, less current portion in the Company's condensed consolidated balance sheets. The Company calculates its incremental borrowing rates for specific lease terms, used to discount future lease payments, as a function of the U.S. Treasury rate and an indicative Moody's rating for operating leases. The Company's weighted average discount rate and weighted average lease term remaining on lease liabilities is approximately 6.83% and 9.20 years, respectively.

**Legal Matters**

The United States Department of Justice ("DOJ") is investigating Genomic Health's compliance with the Medicare Date of Service billing regulation. In March 2017, Genomic Health received a civil investigative demand ("CID") from the U.S. Attorney's Office for the Eastern District of New York in connection with this matter and has produced specific documents in response to the CID. In July 2019 and January 2020, Genomic Health received additional subpoenas from the DOJ related to this inquiry and the Company is cooperating with those requests. An adverse outcome could include the Company being required to pay treble damages, incur civil and criminal penalties, paying attorneys' fees, entering into a corporate integrity agreement, being excluded from participation in government healthcare programs, including Medicare and Medicaid, and other adverse actions that could materially and adversely affect the Company's business, financial condition and results of operation..

The DOJ's investigation is still in process and the scope and outcome of the investigation is not determinable at this time. See Note 16 for additional information on the Company's fair value determination of this pre-acquisition loss contingency. There can be no assurance that any settlement, resolution, or other outcome of this matter during any subsequent reporting period will not have a material adverse effect on the Company's results of operations or cash flows for that period or on the Company's financial position.

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**(14) WISCONSIN ECONOMIC DEVELOPMENT TAX CREDITS**

During the first quarter of 2015, the Company entered into an agreement with the Wisconsin Economic Development Corporation (“WEDC”) to earn \$9.0 million in refundable tax credits on the condition that the Company expends \$26.3 million in capital investments and establishes and maintains 758 full-time positions over a seven-year period. The tax credits earned are first applied against the tax liability otherwise due, and if there is no such liability present, the claim for tax credits will be reimbursed in cash to the Company. The maximum amount of the refundable tax credit to be earned for each year is fixed, and the Company earns the credits by meeting certain capital investment and job creation thresholds over the seven-year period. Should the Company earn and receive the job creation tax credits but not maintain those full-time positions through the end of the agreement, the Company may be required to pay those credits back to the WEDC.

The Company records the earned tax credits as job creation and capital investments occur. The amount of tax credits earned is recorded as a liability and amortized as a reduction of operating expenses over the expected period of benefit. The tax credits earned from capital investment are recognized as an offset to depreciation expense over the expected life of the acquired capital assets. The tax credits earned related to job creation are recognized as an offset to operational expenses over the life of the agreement, as the Company is required to maintain the minimum level of full-time positions through the seven-year period.

As of June 30, 2020, the Company has earned all \$9.0 million of the refundable tax credits and has received payment of \$5.9 million from the WEDC. The unpaid portion is \$3.1 million, of which \$1.6 million is reported in prepaid expenses and other current assets and \$1.5 million is reported in other long-term assets, reflecting when collection of the refundable tax credits is expected to occur. As of June 30, 2020, the Company also has recorded a \$1.1 million liability in other current liabilities, which reflects when the expected benefit of the tax credit amortization will reduce future operating expenses.

During the three and six months ended June 30, 2020, the Company amortized \$0.6 million and \$1.2 million, respectively, of the tax credits earned as a reduction of operating expenses. During the three and six months ended June 30, 2019, the Company amortized \$0.6 million and \$1.2 million, respectively, of the tax credits earned as a reduction of operating expenses.

**(15) CONVERTIBLE NOTES**

Convertible note obligations included in the condensed consolidated balance sheets consisted of the following:

(In thousands)	Coupon Interest Rate	Effective Interest Rate	Fair Value of Liability Component at Issuance (1)	June 30, 2020	December 31, 2019
2028 Convertible notes	0.375%	5.2%	\$ 790,608	\$ 1,150,000	\$ —
2027 Convertible notes	0.375%	6.3%	472,501	747,500	747,500
2025 Convertible notes	1.000%	6.0%	227,103	315,049	415,049
Total Convertible notes				2,212,549	1,162,549
Less: Debt discount (2)				(648,281)	(342,463)
Less: Debt issuance costs (3)				(29,885)	(16,481)
Net convertible debt				\$ 1,534,383	\$ 803,605

(1) As each of the convertible instruments may be settled in cash upon conversion, for accounting purposes, they were separated into a liability component and an equity component. The amount allocated to the equity component is the difference between the principal value of the instrument and the fair value of the liability component at issuance. The resulting debt discount is being amortized to interest expense at the respective effective interest rate over the contractual term of the debt. A portion of the 2025 Convertible Notes have been

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extinguished or converted. The fair value of the liability component at issuance reflected above represents the liability value at issuance for the applicable portion of the 2025 Notes which remain outstanding at June 30, 2020. The fair value of the liability component of the 2025 Notes at issuance was \$654.8 million with the equity component being \$269.7 million.

(2) The unamortized discount consists of the following:

(In thousands)	June 30, 2020	December 31, 2019
2028 Convertible notes	\$ 347,191	\$ —
2027 Convertible notes	239,267	253,340
2025 Convertible notes	61,823	89,123
Total unamortized discount	<u>\$ 648,281</u>	<u>\$ 342,463</u>

(3) Debt issuance costs consists of the following:

(In thousands)	June 30, 2020	December 31, 2019
2028 Convertible notes	\$ 16,098	\$ —
2027 Convertible notes	9,525	10,251
2025 Convertible notes	4,262	6,230
Total debt issuance costs	<u>\$ 29,885</u>	<u>\$ 16,481</u>

#### Issuances and Settlements

In January 2018, the Company issued and sold \$690.0 million in aggregate principal amount of 1.0% Convertible Notes (the “January 2025 Notes”) with a maturity date of January 15, 2025. The January 2025 Notes accrue interest at a fixed rate of 1.0% per year, payable semi-annually in arrears on January 15 and July 15 of each year, beginning on July 15, 2018. The net proceeds from the issuance of the January 2025 Notes were approximately \$671.1 million, after deducting underwriting discounts and commissions and the offering expenses payable by the Company.

In June 2018, the Company issued and sold an additional \$218.5 million in aggregate principal amount of 1.0% Convertible Notes (the “June 2025 Notes”). The June 2025 Notes were issued under the same indenture pursuant to which the Company previously issued the January 2025 Notes (the “Indenture”). The January 2025 Notes and the June 2025 Notes (collectively, the “2025 Notes”) have identical terms (including the same January 15, 2025 maturity date) and will be treated as a single series of securities. The net proceeds from the issuance of the June 2025 Notes were approximately \$225.3 million, after deducting underwriting discounts and commissions and the offering expenses payable by the Company.

In March 2019, the Company issued and sold \$747.5 million in aggregate principal amount of 0.375% Convertible Notes (the “2027 Notes”) with a maturity date of March 15, 2027. The 2027 Notes accrue interest at a fixed rate of 0.375% per year, payable semi-annually in arrears on March 15 and September 15 of each year, beginning on September 15, 2019. The net proceeds from the issuance of the 2027 Notes were approximately \$729.5 million, after deducting underwriting discounts and commissions and the offering expenses payable by the Company.

The Company utilized a portion of the proceeds from the issuance of the 2027 Notes to settle a portion of the 2025 Notes in privately negotiated transactions. In March 2019, the Company used cash of \$494.1 million and an aggregate of 2.2 million shares of the Company’s common stock valued at \$182.4 million for total consideration of \$676.5 million to settle \$493.4 million of the 2025 Notes, of which \$375.0 million was allocated to the liability component, \$300.8 million was allocated to the equity component, and \$0.7 million was used to pay off interest accrued on the 2025 Notes. The consideration transferred was allocated to the liability and equity components of the

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2025 Notes using the equivalent rate that reflected the borrowing rate for a similar non-convertible debt instrument immediately prior to settlement. The transaction resulted in a loss on settlement of convertible notes of \$10.6 million, which is recorded in interest expense in the Company's condensed consolidated statement of operations. The loss represents the difference between (i) the fair value of the liability component and (ii) the sum of the carrying value of the debt component and any unamortized debt issuance costs at the time of repurchase.

In February 2020, the Company issued and sold \$1,150.0 million in aggregate principal amount of 0.375% Convertible Notes (the "2028 Notes" and, collectively with the 2025 Notes and the 2027 Notes, the "Notes") with a maturity date of March 1, 2028. The 2028 Notes accrue interest at a fixed rate of 0.375% per year, payable semi-annually in arrears on March 1 and September 1 of each year, beginning on September 1, 2020. The net proceeds from the issuance of the 2028 Notes were approximately \$1,125.6 million, after deducting underwriting discounts and commissions and the offering expenses payable by the Company.

In February 2020, the Company used \$150.1 million of the proceeds from the issuance of the 2028 Notes to settle \$100.0 million of the 2025 Notes, of which \$85.5 million was allocated to the liability component, \$64.2 million, net of a tax impact of \$0.3 million, was allocated to the equity component, and \$0.1 million was used to pay off interest accrued on the 2025 Notes. The consideration transferred was allocated to the liability and equity components of the 2025 Notes using the equivalent rate that reflected the borrowing rate for a similar non-convertible debt instrument immediately prior to settlement. The transaction resulted in a loss on settlement of convertible notes of \$8.0 million, which is recorded in interest expense in the Company's condensed consolidated statement of operations. The loss represents the difference between (i) the fair value of the liability component and (ii) the sum of the carrying value of the debt component and any unamortized debt issuance costs at the time of repurchase.

### **Summary of Conversion Features**

Until the six-months immediately preceding the maturity date of the applicable series of Notes, each series of Notes is convertible only upon the occurrence of certain events and during certain periods, as set forth in the Indentures. The Notes will be convertible into cash, shares of the Company's common stock (plus, if applicable, cash in lieu of any fractional share), or a combination of cash and shares of the Company's common stock, at the Company's election. On or after the date that is six-months immediately preceding the maturity date of the applicable series of Notes until the close of business on the second scheduled trading day immediately preceding the maturity date, holders may convert such Notes at any time.

It is the Company's intent and policy to settle all conversions through combination settlement. The initial conversion rate is 13.26, 8.96, and 8.21 shares of common stock per \$1,000 principal amount for the 2025 Notes, 2027 Notes, and 2028 Notes, respectively, which is equivalent to an initial conversion price of approximately \$75.43, \$111.66, and \$121.84 per share of the Company's common stock for the 2025 Notes, 2027 Notes, and 2028 Notes, respectively. The conversion rate is subject to adjustment upon the occurrence of certain specified events but will not be adjusted for accrued and unpaid interest. In addition, holders of the Notes who convert their Notes in connection with a "make-whole fundamental change" (as defined in the Indenture), will, under certain circumstances, be entitled to an increase in the conversion rate.

If the Company undergoes a "fundamental change" (as defined in the Indenture), holders of the Notes may require the Company to repurchase for cash all or part of their Notes at a repurchase price equal to 100% of the principal amount of the Notes to be repurchased, plus accrued and unpaid interest.

Based on the closing price of our common stock of \$86.94 on June 30, 2020, the if-converted values on our Notes do not exceed the principal amount.

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### Ranking of Convertible Notes

The Notes are the Company's senior unsecured obligations and (i) rank senior in right of payment to all of its future indebtedness that is expressly subordinated in right of payment to the Notes; equal in right of payment to all of the Company's future liabilities that are not so subordinated, unsecured indebtedness; (ii) are effectively junior to all of our existing and future secured indebtedness and other secured obligations, to the extent of the value of the assets securing that indebtedness and other secured obligations; and (iii) are structurally subordinated to all indebtedness and other liabilities of the Company's subsidiaries.

While the Notes are currently classified on the Company's condensed consolidated balance sheets at June 30, 2020 as long-term, the future convertibility and resulting balance sheet classification of this liability will be monitored at each quarterly reporting date and will be analyzed dependent upon market prices of the Company's common stock during the prescribed measurement periods. In the event that the holders of the Notes have the election to convert the Notes at any time during the prescribed measurement period, the Notes would then be considered a current obligation and classified as such.

The Company allocates total transaction costs of the Notes to the liability and equity components based on their relative values. Transaction costs attributable to the liability component are amortized to interest expense over the term of the Notes, and transaction costs attributable to the equity component are netted with the equity component in stockholders' equity. The following table summarizes the original transaction costs at the time of issuance for each set of Notes and the respective allocation to the liability and equity components:

(In thousands)	January 2025 Notes	June 2025 Notes	2027 Notes	2028 Notes
Transaction costs allocated to:				
Liability component	\$ 13,569	\$ 5,052	\$ 11,395	\$ 16,811
Equity component	5,340	2,311	6,632	7,642
Total transaction costs	<u>\$ 18,909</u>	<u>\$ 7,363</u>	<u>\$ 18,027</u>	<u>\$ 24,453</u>

The Notes do not contain any financial or operating covenants or any restrictions on the payment of dividends, the issuance of other indebtedness or the issuance or repurchase of securities by the Company.

Interest expense includes the following:

(In thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Debt issuance costs amortization	\$ 1,139	\$ 645	\$ 1,961	\$ 1,330
Debt discount amortization	18,946	10,074	32,677	18,468
Loss on settlement of convertible notes	—	—	7,954	10,558
Coupon interest expense	2,567	1,739	4,498	3,846
Total interest expense on convertible notes	<u>22,652</u>	<u>12,458</u>	<u>47,090</u>	<u>34,202</u>
Other interest expense	260	254	975	500
Total interest expense	<u>\$ 22,912</u>	<u>\$ 12,712</u>	<u>\$ 48,065</u>	<u>\$ 34,702</u>

The remaining period over which the unamortized debt discount will be recognized as non-cash interest expense is 7.67, 6.71, and 4.55 years for the 2028 Notes, 2027 Notes, and 2025 Notes, respectively.

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**(16) BUSINESS COMBINATIONS****Paradigm Diagnostics, Inc. and Viomics, Inc.**

On March 3, 2020, the Company acquired all of the outstanding capital stock of Paradigm and Viomics, two related party companies of one another headquartered in Phoenix, Arizona, in transactions that are deemed to be a single business combination in accordance with ASC 805, Business Combinations, (“the Paradigm Acquisition”). Paradigm provides comprehensive genomic-based profiling tests that assist in the diagnosis and therapy recommendations for late-stage cancer. Viomics provides a platform for identification of biomarkers.

The Company entered into this acquisition to enhance its product portfolio in cancer diagnostics and to enhance its capabilities for biomarker identification.

The acquisition date fair value of the consideration to be transferred for Paradigm and Viomics was \$40.4 million which consists of \$32.2 million payable in shares of the Company’s common stock and \$8.2 million which was settled through a cash payment. Of the \$32.2 million to be settled through the issuance of common stock, \$28.6 million was issued in March 2020, and the remaining \$3.6 million, which was withheld and may become payable as additional merger consideration, is included in other current liabilities in the condensed consolidated balance sheet as of June 30, 2020. The purchase price was allocated to the underlying assets acquired and liabilities assumed based upon their estimated fair values at the date of acquisition as follows:

<b>(In thousands)</b>	
Net operating assets	\$ 5,373
Goodwill	30,431
Developed technology	7,800
Net operating liabilities	(3,203)
Total purchase price	<u>\$ 40,401</u>

The fair value of identifiable intangible assets has been determined using the income approach, which involves significant unobservable inputs (Level 3 inputs). These inputs include projected sales, margin, weighted average cost of capital and tax rate.

Developed technology represents purchased technology that had reached technological feasibility and for which development had been completed as of the acquisition date. Fair value was determined using future discounted cash flows related to the projected income stream of the developed technology for a discrete projection period. Cash flows were discounted to their present value as of the closing date. Developed technology is amortized on a straight-line basis over its estimated useful life of 15 years.

The calculation of the excess of the purchase price over the estimated fair value of the tangible net assets and intangible assets acquired was recorded to goodwill, which is primarily attributed to the assembled workforce, and expected synergies. The total goodwill related to this acquisition is not deductible for tax purposes.

The Company agreed to issue to the previous investors in Viomics equity interests with an acquisition-date fair value of up to \$8.4 million in Viomics, vesting over 4 years based on certain retention arrangements. Payment is contingent upon continued employment with the Company over the four year vesting period and is recognized as stock-based compensation expense in general and administrative expense in the condensed consolidated statement of operations.

The partial year results from the operations of Paradigm and Viomics are included in the Company’s condensed consolidated financial statements and not disclosed separately due to immateriality. Pro forma disclosures have not been included due to immateriality.

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**Genomic Health, Inc.**

On November 8, 2019, the Company acquired all of the outstanding capital stock of Genomic Health. Genomic Health, headquartered in Redwood City, California, provides genomic-based diagnostic tests that address both the overtreatment and optimal treatment of early and late stage cancer.

The Company entered into this combination to create a leading global cancer diagnostics company and provide a robust platform for continued growth. This combination provides the Company with a commercial presence in more than 90 countries in which the combined company expects to continue to increase adoption of current tests, and to bring new innovative cancer tests to patients around the world.

Refer to the Company's 2019 10-K for detailed disclosures on the combination, including the fair value of the consideration transferred, purchase price allocation, and goodwill and intangible assets identified in the transaction. During the period ended June 30, 2020, there were no material changes to the purchase price allocation.

**(17) SEGMENT INFORMATION**

Management determined that the Company functions as a single operating segment, and thus reports as a single reportable segment. This operating segment is focused on the development and global commercialization of clinical laboratory services allowing healthcare providers and patients to make individualized treatment decisions. Management assessed the discrete financial information routinely reviewed by the Company's Chief Operating Decision Maker, its President and Chief Executive Officer, to monitor the Company's operating performance and support decisions regarding allocation of resources to its operations. Performance is continuously monitored at the consolidated level to timely identify deviations from expected results.

The following table summarizes total revenue from customers by geographic region. Product revenues are attributed to countries based on ship-to location.

(In thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
United States	\$ 249,850	\$ 199,870	\$ 576,709	\$ 361,913
Outside of United States	19,018	—	39,980	—
Total revenues	\$ 268,868	\$ 199,870	\$ 616,689	\$ 361,913

Long-lived assets located in countries outside of the United States are not significant.

**(18) INCOME TAXES**

The Company recorded an income tax benefit of \$0.9 million and \$0.4 million for the three months ended June 30, 2020 and 2019, respectively. The Company recorded an income tax benefit of \$2.6 million and \$0.9 million for the six months ended June 30, 2020 and 2019, respectively. The Company's income tax benefit recorded during the three and six months ended June 30, 2020, is primarily related to future limitations on and expiration of certain Federal and State deferred tax assets. As a result of these limitations, the recording of a valuation allowance resulted in a deferred tax liability of approximately \$26.5 million remaining as of June 30, 2020, which is included in other long-term liabilities on the Company's condensed consolidated balance sheet. The Company's income tax benefit recorded during the three and six months ended June 30, 2019, was primarily related to the intraperiod tax allocation rules that required the Company to allocate the provision for income taxes between continuing operations and other categories of earnings. The Company continues to maintain a full valuation allowance against its deferred tax assets based on management's determination that it is more likely than not the benefit will not be realized.

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The Company had \$11.3 million and \$10.2 million of unrecognized tax benefits at June 30, 2020 and December 31, 2019, respectively. The Company does not anticipate a material change to its unrecognized tax benefits over the next 12 months that would affect its effective tax rate. Unrecognized tax benefits may change during the next 12 months for items that arise in the ordinary course of business.

Accrued interest and penalties related to unrecognized tax benefits are recognized as part of the Company's income tax provision in its condensed consolidated statements of operations. The Company is subject to U.S. federal income tax examinations for the tax years 2001 through 2020, state income tax examinations for the tax years 2003 through 2020, and for the years 2014 through 2020 in foreign jurisdictions.

**(19) SUBSEQUENT EVENTS**

In July 2020, the Company acquired 4.0 million shares of Series B Preferred Stock of Thrive Earlier Detection Corp. ("Thrive"), a private company, for \$10.0 million. The Company previously acquired a \$1.0 million investment in the Series A Preferred Stock of Thrive. The Series B investment, along with the prior Series A investment, will be reflected as non-marketable equity investments. The Company has evaluated these investments and concluded consolidation is not required as Thrive is not a VIE and the Company does not have the ability to exercise significant influence over the investee. A member of the Company's Board of Directors holds an investment in Thrive through his investment firm and holds a seat on the Board of Directors of Thrive. The Company has concluded that its investments in Thrive are not deemed to be related party transactions as a result of its director's separate interests in Thrive.

## Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

The following discussion of our financial condition and results of operations should be read in conjunction with the condensed consolidated financial statements and the related notes thereto included elsewhere in this Quarterly Report on Form 10-Q and the audited financial statements and notes thereto and Management’s Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K for the year ended December 31, 2019, which has been filed with the SEC (the “2019 Form 10-K”).

### Forward-Looking Statements

*This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, that are intended to be covered by the “safe harbor” created by those sections. Forward-looking statements, which are based on certain assumptions and describe our future plans, strategies and expectations, can generally be identified by the use of forward-looking terms such as “believe,” “expect,” “may,” “will,” “should,” “would,” “could,” “seek,” “intend,” “plan,” “goal,” “project,” “estimate,” “anticipate” or other comparable terms. All statements other than statements of historical facts included in this Quarterly Report on Form 10-Q regarding our strategies, prospects, expectations, financial condition, operations, costs, plans, and objectives are forward-looking statements. Examples of forward-looking statements include, among others, statements we make regarding expected future operating results, anticipated results of our sales, marketing and patient adherence efforts, expectations concerning payer reimbursement, and the anticipated results of our product development efforts. Forward-looking statements are neither historical facts nor assurances of future performance. Instead, they are based only on current beliefs, expectations and assumptions regarding the future of our business, future plans and strategies, projections, anticipated events and trends, the economy and other future conditions. Because forward-looking statements relate to the future, they are subject to inherent uncertainties, risks and changes in circumstances that are difficult to predict and many of which are outside of our control. Actual results, conditions and events may differ materially from those indicated in the forward-looking statements. Therefore, you should not rely on any of these forward-looking statements. Important factors that could cause actual results, conditions and events to differ materially from those indicated in the forward-looking statements include, among others, the following: uncertainties associated with the coronavirus (COVID-19) pandemic, including its possible effects on our operations and the demand for our products and services; our ability to efficiently and flexibly manage our business amid uncertainties related to COVID-19; our ability to successfully and profitably market our products and services; the acceptance of our products and services by patients and healthcare providers; our ability to meet demand for our products and services; the success of our efforts to facilitate patient access to Cologuard via telehealth; the willingness of health insurance companies and other payers to cover our products and services and adequately reimburse us for such products and services; the amount and nature of competition for our products and services; the effects of the adoption, modification or repeal of any law, rule, order, interpretation or policy relating to the healthcare system, including without limitation as a result of any judicial, executive or legislative action; the effects of changes in pricing, coverage and reimbursement for our products and services, including without limitation as a result of the Protecting Access to Medicare Act of 2014; recommendations, guidelines and quality metrics issued by various organizations such as the U.S. Preventive Services Task Force, the American Society of Clinical Oncology, the American Cancer Society, and the National Committee for Quality Assurance regarding cancer screening or our products and services; our ability to successfully develop new products and services and assess potential market opportunities; our ability to effectively enter into and utilize strategic partnerships, such as through our Promotion Agreement with Pfizer, Inc., and acquisitions; our success establishing and maintaining collaborative, licensing and supplier arrangements; our ability to maintain regulatory approvals and comply with applicable regulations; our ability to manage an international business and our expectations regarding our international expansion and opportunities; the potential effects of foreign currency exchange rate fluctuations and our efforts to hedge such effects; the possibility that the anticipated benefits from our business acquisitions cannot be realized in full or at all or may take longer to realize than expected; the possibility that costs or difficulties related to the integration of acquired businesses will be greater than expected and the possibility of disruptions to our business during integration efforts and strain on management time and resources; the outcome of any litigation, government investigations, enforcement actions or other legal proceedings; and the other risks and uncertainties described in the Risk Factors and in Management’s Discussion and Analysis of Financial Condition and Results of Operations sections of the 2019 Form 10-K and subsequently filed Quarterly Reports on Form 10-Q. We undertake no obligation to publicly update any forward-looking statement, whether written or oral, that may be made from time to time, whether as a result of new information, future developments or otherwise.*

## **Overview**

Exact Sciences Corporation (together with its subsidiaries, “Exact,” “we,” “us,” “our” or the “Company”) is a leading global cancer diagnostics company. We have developed some of the most impactful brands in cancer diagnostics, and we are currently working on the development of additional tests for other types of cancer, with the goal of bringing new innovative cancer tests to patients throughout the world.

## **Our Cologuard Test**

Colorectal cancer is the second leading cause of cancer deaths in the United States (“U.S.”) and the leading cause of cancer deaths in the U.S. among non-smokers. In 2020 in the U.S. there are projected to be approximately 148,000 new cases of colorectal cancer and 53,000 deaths from colorectal cancer. It is widely accepted that colorectal cancer is among the most preventable, yet least prevented cancers.

Our Cologuard test is a non-invasive stool-based DNA (“sDNA”) screening test that utilizes a multi-target approach to detect DNA and hemoglobin biomarkers associated with colorectal cancer and pre-cancer. Upon approval by the U.S. Food and Drug Administration (“FDA”) in August 2014, Cologuard became the first and only FDA-approved sDNA non-invasive colorectal cancer screening test. Cologuard is now indicated for average risk adults 45 years of age and older.

Our original premarket approval submission to the FDA for Cologuard included the results of our pivotal DeeP-C clinical trial that had over 10,000 patients enrolled at 90 sites in the U.S. and Canada. The results of our DeeP-C clinical trial for Cologuard were published in the New England Journal of Medicine in April 2014. The peer-reviewed study, “Multi-target Stool DNA Testing for Colorectal-Cancer Screening,” highlighted the performance of Cologuard in the trial population:

- Cancer Sensitivity: 92%
- Stage I and II Cancer Sensitivity: 94%
- High-Grade Dysplasia Sensitivity: 69%
- Specificity: 87%

## **Our Oncotype DX Tests**

With our Oncotype IQ Genomic Intelligence Platform we are applying our world-class scientific and commercial expertise and infrastructure to lead the translation of clinical and genomic data into clinically actionable results for treatment planning throughout the cancer patient's journey, from diagnosis to treatment selection and monitoring. Our Oncotype IQ Genomic Intelligence Platform is currently comprised of our flagship line of Oncotype DX gene expression tests for breast, prostate and colon cancer, as well as Oncotype DX AR-V7 Nucleus Detect® test, a liquid-based test for advanced stage prostate cancer.

We believe our Oncotype DX tests provide information that has the following benefits:

- *Improved Quality of Treatment Decisions.* We believe our approach to genomic-based cancer analysis improves the quality of cancer treatment decisions by providing an individualized analysis of each patient’s tumor that is correlated to clinical outcome, rather than solely using subjective, anatomic and qualitative factors to determine treatments. Our Oncotype DX tests for breast cancer, Ductal Carcinoma in Situ (“DCIS”), prostate cancer, and colon cancer have been analytically and clinically validated in multiple published studies. The Recurrence Score® results from our tests have been demonstrated to classify patients into recurrence risk categories different than classifications based primarily on clinical and pathologic features. Additionally, multiple decision impact studies conducted worldwide consistently show that the Recurrence Score result changes treatment decisions in more than 30% of patients. As a result, we believe our tests enable patients and healthcare providers to make more informed decisions about the risks and benefits of various treatments, and consequently design an individualized treatment plan.

- *Improved Health Economics of Cancer Care.* We believe that improving the quality of treatment decisions can result in significant economic benefits. The results of a number of clinical studies have demonstrated that by using the Oncotype DX Breast Recurrence Score® test, physicians and patients can better evaluate treatment options, such as whether a patient will or will not benefit from chemotherapy. Patients are benefited when (1) those who aren't likely to benefit from chemotherapy avoid it and the associated chemotoxicities and (2) those who are likely to benefit from chemotherapy receive it resulting in reduced incidence of distant recurrences. These better clinical outcomes increase survival rates and also save the patient as well as the healthcare system significant costs.

### ***International Business Background and Products***

Prior to our combination with Genomic Health, we did not have international revenue. We now commercialize our Oncotype DX tests internationally through employees in Canada, Japan and six European countries, as well as through exclusive distribution agreements. We have provided our Oncotype DX tests in more than 90 countries outside of the United States. We do not offer Cologuard outside of the U.S.

Inclusion of our products in guidelines and quality measures will be critical to our international success. The Oncotype DX breast cancer test is recognized in international guidelines issued by the St. Gallen International Breast Cancer Expert Panel and European Society for Medical Oncology and has been included in certain guidelines and recommendations in England, Germany and Japan. We have obtained coverage for our invasive breast cancer test outside of the U.S., including coverage for certain patients in Canada, France, Spain, Germany, Italy, Ireland, Israel, Saudi Arabia, Switzerland, and the United Kingdom. We expect that broadening coverage and reimbursement for our Oncotype DX tests outside of the United States will take years.

### ***Pipeline Research and Development***

Our research and development efforts are focused on developing new products and enhancing existing products to address new cancer areas and expand the clinical utility and addressable patient populations for our existing tests. These development efforts may lead to a variety of possible new products, including risk assessment, screening and prevention, early disease diagnosis, adjuvant and/or neoadjuvant disease treatment, metastatic disease treatment selection and patient monitoring.

Through our collaboration with Mayo Foundation for Medical Education and Research, we have successfully performed validation studies on multiple types of cancer using tissue, blood and other samples. We are currently focusing our research and development efforts on building a pipeline of potential future products and services with a focus on improving Cologuard's performance characteristics and on developing blood or other fluid-based ("liquid biopsy") tests. We expect to advance liquid biopsy through biomarker discovery and validation in tissue, blood, or other fluids.

We are pursuing the following opportunities:

- *Colon Cancer Screening.* We are seeking opportunities to improve upon Cologuard's performance characteristics. In October 2019, we and Mayo presented at the American College of Gastroenterology's 2019 Annual Scientific Meeting findings from a blinded-case control study showing enhanced colorectal cancer and advanced adenoma detection using newly discovered methylation biomarkers and hemoglobin. To establish the performance of the novel multi-target stool DNA test, we recently launched the BLUE-C study, a multi-center, prospective study. We expect to enroll more than 10,000 patients 40 years of age and older in the BLUE-C study. The timing of any such enhancements to Cologuard is unknown and would be subject to FDA approval. We are also working to develop a blood-based screening test for colorectal cancer.

- *Hepatocellular Carcinoma (“HCC”) Test Development.* We are currently seeking to develop a blood-based biomarker test to serve as an alternative to ultrasound and alpha-fetoprotein (“AFP”) for use in HCC testing. HCC is the most common type of liver cancer. Our goal is to develop a patient-friendly test that performs better than the current standard of care. In November 2019, we released the results of a 443-patient study which demonstrated 80% sensitivity at 90% specificity with a novel combination of six blood-based biomarkers for HCC. The study also showed 71% sensitivity for early stage HCC at 90% specificity. The study compared performance to the AFP test, which demonstrated 45% sensitivity at 90% specificity for early stage HCC.
- *Development Studies for Oncotype DX Products.* We may also conduct or fund clinical studies that could support additional opportunities for our products. For example, we may explore clinical studies to expand the use of genomic testing to address additional populations, including higher-risk patients.

### ***Coronavirus (“COVID-19”) Pandemic***

The spread of COVID-19 has affected many segments of the global economy, including the cancer screening and diagnostics industry. The COVID-19 outbreak, which the World Health Organization has classified as a pandemic, has prompted governments and regulatory bodies throughout the world to enact broad precautionary measures, including “stay at home” orders, restrictions on the performance of “non-essential” services, public gatherings and travel. Health systems, including in key markets where we operate, have been, or may be, overwhelmed with high volumes of patients suffering from COVID-19. The territories in which we market, sell, distribute and perform our tests are attempting to address the COVID-19 pandemic in varying ways, including stay-at-home orders, temporarily closing businesses, restricting gatherings, restricting travel, and mandating social distancing and face coverings. Certain jurisdictions have begun re-opening only to return to restrictions due to increases in new COVID-19 cases. The level and nature of the disruption caused by COVID-19 is unpredictable, may be cyclical and long-lasting and may vary from location to location.

The pandemic and related precautionary measures began to materially disrupt our business in March 2020 and may continue to disrupt our business for an unknown period of time. As a result, we anticipate significant impact to our 2020 operating results, including our revenues, margins, and cash utilization, among other measures.

Beginning in March 2020, we undertook temporary precautionary measures intended to help minimize the risk of the virus to our employees, including temporarily requiring most employees to work remotely; suspending field-based, face-to-face interactions by our sales force; requiring on-site employees to undergo COVID-19 testing, wear personal protective equipment (including face masks or shields) and maintain social distancing; pausing all non-essential travel worldwide for our employees; and limiting employee attendance at industry events and in-person work-related meetings, to the extent those events and meetings are continuing. Our commercial partner for Cologuard, Pfizer, Inc. (“Pfizer”) has taken similar precautions, including suspending face-to-face interactions between sales representatives and healthcare providers.

We expect to adjust our precautionary measures at our various locations based on local recovery levels and applicable governmental regulations. For example, a portion of our sales force has recommenced field-based interactions, although access to healthcare providers remains limited. Our business could be negatively affected if we take excessive, ineffective or inadequate precautions.

Due to social distancing, stay-at-home orders, and other actions taken in response to COVID-19, there has been a significant and widespread decline in standard wellness visits and preventive services. That decline negatively impacted Cologuard test orders in our Screening business, notwithstanding the availability of alternative ordering channels such as telehealth. Cologuard test orders declined 32 percent year-over-year for the three months ended June 30, 2020.

The Precision Oncology business started to see weakening underlying conditions in April 2020 because of COVID-19, more notably in the U.S. prostate business and in certain international geographies. The widespread decrease in preventive services, including mammograms and prostate cancer screenings, negatively impacted Precision Oncology test volumes during May and June 2020 due to the typical lag between cancer screening and genomic test ordering.

Despite our efforts, the ultimate impact of COVID-19 depends on factors beyond our knowledge or control, including the duration and severity of the outbreak, as well as third-party actions taken to contain its spread and mitigate its public health effects.

### ***COVID-19 Testing Business***

In late March 2020, we began providing COVID-19 testing. The U.S. Food and Drug Administration (FDA) has granted us Emergency Use Authorization to test for SARS-CoV-2, the virus that causes COVID-19, in upper respiratory samples. We have partnered with various customers, including the State of Wisconsin Department of Health, to administer testing. Customers are responsible for employing trained personnel to collect specimens. Specimens are sent to our laboratory in Madison, Wisconsin, where we run the assay in our laboratories and provide test results to ordering providers. In light of the uncertainty surrounding the COVID-19 pandemic, we intend to periodically reassess our COVID-19 testing business.

### ***2020 Priorities***

As a result of COVID-19 and its impact to our business, we have re-prioritized our goals for 2020 with a focus on serving patients who continue to need the healthcare services we provide while aligning our cost structure with the anticipated lower sales volumes and revenues. Our top priorities for 2020 are (1) get people tested, (2) take care of our customers, and (3) preserve financial strength.

#### *Get People Tested*

Business continuity plans are in place at all of our sites to help sustain operations and ensure continuity of services for patients during this unprecedented time. Despite the COVID-19 pandemic, many people still need to be screened for colorectal cancer, and treated for breast, colon, and prostate cancers. Our lab facilities presently remain operational so that we can continue to process results of our Cologuard, Oncotype DX and COVID-19 tests.

#### *Take Care of our Customers*

Due to social distancing, stay-at-home orders, and other actions taken in response to COVID-19, there has been a significant and widespread decline in standard wellness visits and preventive services. We have taken steps to limit exposure to COVID-19 based on recommendations from government and health agencies, including limiting field-based, face-to-face interactions by our sales force. The sales team that is not engaged in face-to-face interactions will serve healthcare providers via telephone and online technologies until it is safe to return to the field.

#### *Preserve Financial Strength*

In order to minimize the adverse impacts to our business and operations anticipated during 2020 due to the COVID-19 pandemic, we initiated proactive measures to achieve cost savings. Actions we have taken include the reduction of base pay for our chief executive officer to effectively zero, elimination of the Board of Directors annual cash retainer, reducing base salaries for our executive team, and reducing the quarterly sales commissions. We implemented a workforce reduction, involuntary furloughs, work schedule reductions, as well as a voluntary furlough program. Additionally, we reduced investments in marketing and other promotional activities, paused certain clinical trial activities, reduced travel and professional services, and delayed or terminated certain capital projects. We also saw a reduction in certain volume based cost of goods sold expenses consistent with the reduction in revenue. These actions are expected to contribute to significant cost savings in 2020.

### ***Results of Operations***

We have generated significant losses since inception and, as of June 30, 2020, we had an accumulated deficit of approximately \$1.3 billion. We expect to continue to incur losses for the near future, and it is possible we may never achieve profitability. As mentioned in further detail above, we expect the recent outbreak of COVID-19 will have an adverse impact on our operations in 2020.

**Revenue.** Our revenue is primarily generated by our laboratory testing services, from our Cologuard, Oncotype DX and COVID-19 tests. For the three months ended June 30, 2020 and 2019, we generated Screening revenue of \$131.3 million and \$199.9 million, respectively. For the six months ended June 30, 2020 and 2019, we generated Screening revenue of \$350.8 million and \$361.9 million, respectively. Screening includes laboratory service revenue from Cologuard and revenue from Biomatrix products. For the three months ended June 30, 2020, we generated Precision Oncology revenue of \$103.0 million. For the six months ended June 30, 2020, we generated Precision Oncology revenue of \$231.3 million. Precision Oncology includes laboratory service revenue from global Oncotype DX and Paradigm products. For the three and six months ended June 30, 2020, we also generated \$34.6 million in revenue from our COVID-19 testing.

For the three and six months ended June 30, 2020, our revenue was adversely impacted by the effects of the COVID-19 outbreak on our Screening and Precision Oncology testing services, which effects were partially offset by revenue from our COVID-19 testing.

**Our cost structure.** Our selling, general and administrative expenses consist primarily of non-research personnel salaries, office expenses, professional fees, sales and marketing expenses incurred in support of our commercialization efforts and non-cash stock-based compensation.

Cost of sales includes costs related to inventory production and usage, shipment of collection kits and tissue samples, royalties and the cost of services to process tests and provide results to healthcare providers.

We expect that gross margin for our services will continue to fluctuate and be affected by the test volume of our products, our operating efficiencies, patient adherence rates, payer mix, the levels of reimbursement, and payment patterns of payers and patients.

**Cost of sales (exclusive of amortization of acquired intangible assets).** Cost of sales increased to \$77.9 million for the three months ended June 30, 2020 from \$51.1 million for the three months ended June 30, 2019. Cost of sales increased to \$159.5 million for the six months ended June 30, 2020 from \$94.0 million for the six months ended June 30, 2019. The increase in cost of sales is primarily due to costs incurred on our Precision Oncology tests due to the completion of the combination with Genomic Health in November 2019 and costs incurred from our COVID testing, which was partially offset by lower volume driven costs from our Screening business due to the adverse impact of COVID-19.

Amounts in millions	Three Months Ended June 30,		
	2020	2019	Change
Production costs	\$ 38.8	\$ 36.6	\$ 2.2
Personnel expenses	22.9	8.2	14.7
Facility and support services	13.0	4.8	8.2
Stock-based compensation	3.3	1.4	1.9
Other cost of sales expenses	(0.1)	0.1	(0.2)
Total cost of sales expense	\$ 77.9	\$ 51.1	\$ 26.8

Amounts in millions	Six Months Ended June 30,		
	2020	2019	Change
Production costs	\$ 83.0	\$ 66.9	\$ 16.1
Personnel expenses	45.2	16.3	28.9
Facility and support services	25.3	8.2	17.1
Stock-based compensation	5.8	2.5	3.3
Other cost of sales expenses	0.2	0.1	0.1
Total cost of sales expense	\$ 159.5	\$ 94.0	\$ 65.5

**Research and development expenses.** Research and development expenses increased to \$32.7 million for the three months ended June 30, 2020 compared to \$30.0 million for the three months ended June 30, 2019. Research and development expenses increased to \$76.2 million for the six months ended June 30, 2020 compared to \$61.8 million for the six months ended June 30, 2019. The increase in research and development expenses was primarily due to an increase in personnel costs due to increased headcount from the combination with Genomic Health in November 2019, which was partially offset by a reduction of certain direct research and development costs due to the cost saving measures taken as a result of the COVID-19 pandemic.

Amounts in millions	Three Months Ended June 30,		
	2020	2019	Change
Personnel expenses	\$ 15.4	\$ 7.5	\$ 7.9
Direct research and development	6.8	16.3	(9.5)
Stock-based compensation	5.6	3.3	2.3
Facility and support services	3.5	1.1	2.4
Professional fees	0.7	1.1	(0.4)
Other research and development	0.7	0.7	—
Total research and development expenses	\$ 32.7	\$ 30.0	\$ 2.7

Amounts in millions	Six Months Ended June 30,		
	2020	2019	Change
Personnel expenses	\$ 31.8	\$ 15.9	\$ 15.9
Direct research and development	25.1	34.9	(9.8)
Stock-based compensation	9.6	5.9	3.7
Facility and support services	6.4	2.1	4.3
Professional fees	1.8	2.0	(0.2)
Other research and development	1.5	1.0	0.5
Total research and development expenses	\$ 76.2	\$ 61.8	\$ 14.4

**General and administrative expenses.** General and administrative expenses increased to \$106.7 million for the three months ended June 30, 2020 compared to \$63.7 million for the three months ended June 30, 2019. General and administrative expenses increased to \$220.7 million for the six months ended June 30, 2020 compared to \$127.5 million for the six months ended June 30, 2019. The increase in general and administrative expenses was primarily related to the operations of Genomic Health being included in our results after the completion of the combination in November 2019 and to support the overall growth of the Company.

Amounts in millions	Three Months Ended June 30,		
	2020	2019	Change
Personnel expenses	\$ 51.9	\$ 26.7	\$ 25.2
Professional and legal fees	15.2	10.3	4.9
Stock-based compensation	19.0	10.3	8.7
Facility and support services	14.0	12.9	1.1
Other general and administrative	6.6	3.5	3.1
Total general and administrative expenses	<u>\$ 106.7</u>	<u>\$ 63.7</u>	<u>\$ 43.0</u>

Amounts in millions	Six Months Ended June 30,		
	2020	2019	Change
Personnel expenses	\$ 105.1	\$ 56.7	\$ 48.4
Professional and legal fees	37.0	19.3	17.7
Stock-based compensation	33.4	18.5	14.9
Facility and support services	29.4	25.9	3.5
Other general and administrative	15.8	7.1	8.7
Total general and administrative expenses	<u>\$ 220.7</u>	<u>\$ 127.5</u>	<u>\$ 93.2</u>

**Sales and marketing expenses.** Sales and marketing expenses increased to \$118.9 million for the three months ended June 30, 2020 compared to \$88.2 million for the three months ended June 30, 2019. Sales and marketing expenses increased to \$286.6 million for the six months ended June 30, 2020 compared to \$179.1 million for the six months ended June 30, 2019. The increase in sales and marketing expenses was a result of hiring additional sales and marketing personnel including the Precision Oncology team from the completion of the Genomic Health combination in November 2019, which was partially offset by a reduction in advertising and marketing spend during the second quarter of 2020 as a result of the COVID-19 pandemic.

Amounts in millions	Three Months Ended June 30,		
	2020	2019	Change
Personnel expenses	\$ 60.4	\$ 36.8	\$ 23.6
Direct marketing costs and professional fees	29.7	23.8	5.9
Professional and legal fees	5.4	21.5	(16.1)
Facility and support services	10.9	0.9	10.0
Stock-based compensation	12.1	5.1	7.0
Other sales and marketing expenses	0.4	0.1	0.3
Total sales and marketing expenses	\$ 118.9	\$ 88.2	\$ 30.7

Amounts in millions	Six Months Ended June 30,		
	2020	2019	Change
Personnel expenses	\$ 141.3	\$ 73.2	\$ 68.1
Direct marketing costs and professional fees	63.1	45.9	17.2
Professional and legal fees	37.5	48.9	(11.4)
Facility and support services	23.2	1.6	21.6
Stock-based compensation	20.8	9.4	11.4
Other sales and marketing expenses	0.7	0.1	0.6
Total sales and marketing expenses	\$ 286.6	\$ 179.1	\$ 107.5

**Amortization of acquired intangible assets.** Amortization of acquired intangible assets increased to \$23.4 million for the three months ended June 30, 2020 compared to \$0.7 million for the three months ended June 30, 2019. Amortization of acquired intangible assets increased to \$46.8 million for the six months ended June 30, 2020 compared to \$1.5 million for the six months ended June 30, 2019. The increase in amortization of acquired intangible assets was primarily due to the Genomic Health combination.

**Other operating income.** Other operating income increased to \$23.7 million for the three and six months ended June 30, 2020 compared to zero for the three and six months ended June 30, 2019. The income generated during the three and six months ended June 30, 2020 represents the funding received under the Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”) Provider Relief Fund, which was accepted from the Department of Health & Human Services in May 2020.

**Investment income, net.** Investment income, net decreased to \$2.9 million for the three months ended June 30, 2020 compared to \$7.7 million for the three months ended June 30, 2019. Investment income, net decreased to \$3.0 million for the six months ended June 30, 2020 compared to \$14.3 million for the six months ended June 30, 2019. The decrease in investment income, net was due to a decrease in realized gains generated from the sale of marketable securities and a decrease in the average rate of return on investments due to an decrease in market interest rates and a lower average balance in marketable securities for the six months ended June 30, 2020 when compared to the same period in 2019.

**Interest expense.** Interest expense increased to \$22.9 million for the three months ended June 30, 2020 compared to \$12.7 million for the three months ended June 30, 2019. Interest expense increased to \$48.1 million for the six months ended June 30, 2020 compared to \$34.7 million for the six months ended June 30, 2019. The increase is primarily due to the issuance of additional convertible notes in February 2020 as further described in Note 15 of our condensed consolidated financial statements included in this Quarterly Report, which was partially offset by lower interest rates on the convertible notes issued in February 2020. Interest expense recorded from our outstanding convertible notes totaled \$22.7 million and \$12.5 million during the three months ended June 30, 2020 and 2019, respectively. Interest expense recorded from our outstanding convertible notes totaled \$39.1 million and \$23.6 million during the six months ended June 30, 2020 and 2019, respectively. In addition to the \$39.1 million in interest expense recorded on outstanding convertible notes, an additional \$8.0 million and \$10.6 million was recorded during the six months ended June 30, 2020 and 2019, respectively, as a result of the settlement of convertible notes, as further described in Note 15 of our condensed consolidated financial statements included in this Quarterly Report. Of the \$22.7 million and \$12.5 million in interest expense recorded on outstanding convertible notes for the three months ended June 30, 2020 and 2019, \$20.1 million and \$10.7 million of interest expense relates to amortization of debt discount and debt issuance costs, respectively. Of the \$39.1 million and \$23.6 million in interest expense recorded on outstanding convertible notes for the six months ended June 30, 2020 and 2019, \$34.6 million and \$19.8 million of interest expense relates to amortization of debt discount and debt issuance costs, respectively. The remaining \$5.5 million and \$4.3 million of interest expense for the six months ended June 30, 2020 and 2019, respectively, relates to the stated interest that was paid in cash during the years on our outstanding convertible notes and construction loan.

**Income tax benefit.** Income tax benefit increased to \$0.9 million for the three months ended June 30, 2020 compared to \$0.4 million for the three months ended June 30, 2019. Income tax benefit increased to \$2.6 million for the six months ended June 30, 2020 compared to \$0.9 million for the six months ended June 30, 2019. This increase in income tax benefit is primarily due to future limitations on and expiration of certain Federal and State deferred tax assets.

### ***Liquidity and Capital Resources***

We have financed our operations since inception primarily through public offerings of our common stock and convertible debt and through revenue generated by the sale of the Cologuard, and since the completion of our Genomic Health combination, of Oncotype DX tests. As of June 30, 2020, we had approximately \$703.9 million in unrestricted cash and cash equivalents and approximately \$518.7 million in marketable securities.

The majority of our investments in marketable securities consist of fixed income investments, and all are deemed available-for-sale. The objectives of this portfolio are to provide liquidity and safety of principal while striving to achieve the highest rate of return. Our investment policy limits investments to certain types of instruments issued by institutions with investment grade credit ratings and places restrictions on maturities and concentration by type and issuer.

Net cash used in operating activities was \$56.7 million for the six months ended June 30, 2020 compared to \$57.2 million for the six months ended June 30, 2019. The principal use of cash in operating activities for the six months ended June 30, 2020 and 2019 was to fund our net loss.

Net cash used in investing activities was \$412.2 million for the six months ended June 30, 2020 compared to \$143.7 million for the six months ended June 30, 2019. The increase in cash used in investing activities for the six months ended June 30, 2020 compared to the same period in 2019 was primarily the result of the timing of purchases, sales, and maturities of marketable securities. Excluding the impact of purchases, sales, and maturities of marketable securities, net cash used in investing activities was \$40.6 million for the six months ended June 30, 2020 compared to \$79.8 million for the six months ended June 30, 2019. Cash use consisted primarily of purchases of property and equipment of \$33.5 million and \$79.4 million for the six months ended June 30, 2020 and 2019, respectively, and an acquisition of \$6.7 million. There were also minimal purchases of intangible assets during the six months ended June 30, 2020 and 2019.

Net cash provided by financing activities was \$995.6 million for the six months ended June 30, 2020 compared to \$245.6 million for the six months ended June 30, 2019. During the six months ended June 30, 2020, we received net cash of \$1,125.5 million from the issuance of Convertible Notes with a maturity date of March 1, 2028 (the “2028 Notes”), and we used \$150.1 million of cash to settle Convertible Notes with an original maturity date of January 15, 2025 (the “2025 Notes”). The cash provided by financing activities for the six months ended June 30, 2019 was primarily the result of proceeds of \$729.5 million from our issuance of Convertible Notes with a maturity date of March 15, 2027 (the “2027 Notes”, and, collectively with the 2025 Notes and 2028 Notes, the “Notes”), and we used \$493.4 million of cash to settle a portion of the 2025 Notes. In addition, during the six months ended June 30, 2020 we received proceeds of \$10.9 million from the exercise of stock options and \$9.8 million from our employee stock purchase plan.

We expect that cash and cash equivalents and marketable securities on hand at June 30, 2020 will be sufficient to fund our current operations for at least the next twelve months, based on current operating plans. However, we may need to raise additional capital to fully fund our current strategic plan, which includes successfully commercializing Cologuard and Oncotype DX and developing a pipeline of future products. Additionally, we may enter into transactions to acquire other businesses, products, services, or technologies as part of our strategic plan. If we are unable to obtain sufficient additional funds to enable us to fund our operations through the completion of such plan, our results of operations and financial condition would be materially adversely affected, and we may be required to delay the implementation of our plan and otherwise scale back our operations. Even if we successfully raise sufficient funds to complete our plan, we cannot assure that our business will ever generate sufficient cash flow from operations to become profitable.

The spread of COVID-19 and measures to prevent further spread, have significantly disrupted our business, and may continue to disrupt our business for an unknown period of time. The full impact of the outbreak is uncertain at this time and continues to evolve globally. We do not yet know the extent to which COVID-19 will negatively impact our financial results or liquidity. The outbreak has disrupted our operations, as well as the operations and behaviors of healthcare providers, patients and suppliers. Depending on how healthcare providers, patients and suppliers are adversely impacted by the pandemic, as well as the overall duration and severity of the pandemic, our liquidity could be materially and adversely affected. Management continues to monitor and assess the evolving developments with respect to COVID-19.

A table reflecting certain of our specified contractual obligations as of December 31, 2019 was provided in the Management’s Discussion and Analysis of Financial Condition and Results of Operation of our 2019 Form 10-K. During the six months ended June 30, 2020, we issued \$1,150.0 million in aggregate principal amount of 0.375% Convertible Notes that will mature on March 1, 2028. The holders of the Notes may convert prior to September 1, 2027 only under certain circumstances and may convert at any time after September 1, 2027. The Notes accrue interest at a fixed rate of 0.375% per year, payable semi-annually in arrears on March 1 and September 1 of each year, beginning on September 1, 2020. Of the cash received upon issuance of the 2028 Notes, approximately \$150.1 million was used to repay a portion of the outstanding principal balance and accrued interest of the 2025 Notes held by certain Noteholders. Upon repayment of such portion of the outstanding principal balance of the 2025 Notes, there was \$315.0 million in aggregate principal balance remaining under the 2025 Notes. See Note 15 of the condensed consolidated financial statements included in this Quarterly Report for further details. With the exception of this item, there were no material changes outside the ordinary course of our business in our specified contractual obligations during the six months ended June 30, 2020.

### ***Critical Accounting Policies and Estimates***

Management’s discussion and analysis of our financial condition and results of operations is based on our condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States (“GAAP”). The preparation of these 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 revenues and expenses during the reporting periods. On an ongoing basis, we evaluate our estimates and judgments, including those related to revenue recognition, tax positions and stock-based compensation. We base our estimates on historical experience and on various other factors that are believed to be appropriate 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.

Our significant accounting policies are more fully described in Note 1 of our financial statements included in our 2019 Form 10-K, as well as our Management's Discussion and Analysis of Financial Condition and Results of Operations on our 2019 Form 10-K. There have not been any significant changes to our critical accounting policies and estimates during the six months ended June 30, 2020.

**Revenue Recognition.** We recognize revenue on the release of a test result to an ordering healthcare provider for tests performed based on our estimate of the amount that we will ultimately collect at the time the release is complete. The amount of revenue we recognize is based on the established billing rates less contractual and other adjustments, which yields the constrained amount that we expect to ultimately collect. We determine the amount we expect to ultimately collect on a per-payer or per-agreement basis, using historical collections, established reimbursement rates and other adjustments. The expected amount is typically lower than, if applicable, the agreed-upon reimbursement amount due to several factors, such as the amount of any patient co-payments, out-of-network payers, the existence of secondary payers and claim denials. The consideration derived from our contracts is fixed when we contract with a direct bill payer who assumes the downstream patient billing. Our ability to collect is not contingent on the customer's ability to collect through their downstream billing efforts. In the case of some of our laboratory service agreements ("LSAs") with various organizations, the right to bill and collect exists prior to the receipt of a specimen and release of a test result to the ordering healthcare provider, which results in deferred revenue. The deferred revenue balance is relieved upon the release of the applicable patient's test result to the ordering healthcare provider or as of the date that breakage occurs (tests that are not returned to our laboratory for processing by their contracted deadline) for certain LSAs. We consider this breakage date to be the time at which the patient or direct bill payer obtains control of the promised test service. Upon ultimate collection, the aggregate amount received from payers and patients where reimbursement was estimated is compared to previous collection estimates and, if necessary, the contractual allowance is adjusted. Finally, should we later determine the judgments underlying estimated collections change, our financial results could be negatively impacted in future quarters.

**Convertible Notes.** We account for convertible debt instruments that may be settled in cash or equity upon conversion by separating the liability and equity components of the instruments in a manner that reflects our nonconvertible debt borrowing rate. In February 2020 we issued the 2028 Notes of \$1,150.0 million in aggregate principal amount of 0.375% Convertible Notes with a maturity date of March 1, 2028. As part of that issuance, we settled approximately \$100.0 million in outstanding 2025 Notes. We determined the carrying amount of the liability component of the 2028 Notes by using assumptions that market participants would use in pricing a debt instrument, including market interest rates, credit standing, yield curves and volatilities. Determining the fair value of the debt component requires the use of accounting estimates and assumptions. These estimates and assumptions are judgmental in nature and could have a significant impact on the determination of the debt component, and the associated non-cash interest expense.

For the February 2020 offering, we allocated \$346.6 million, net of tax, to the equity component of the convertible debt instrument. That equity component is treated as a discount on the liability component of the Notes, which is amortized over the eight-year term of the 2028 Notes using the effective interest rate method. In addition, debt issuance costs related to the 2028 Notes was \$24.4 million. We allocated the costs to the liability and equity components of the 2028 Notes based on their relative values. The debt issuance costs allocated to the liability component are being amortized over the life of the 2028 Notes as additional non-cash interest expense. The transaction costs allocated to the equity component are netted with the equity component of the convertible debt instrument in stockholders' equity.

**Business Combinations.** Business Combinations are accounted for under the acquisition method in accordance with ASC 805, Business Combinations. The acquisition method requires identifiable assets acquired and liabilities assumed and any non-controlling interest in the business acquired be recognized and measured at fair value on the acquisition date, which is the date that the acquirer obtains control of the acquired business. The amount by which the fair value of consideration transferred as the purchase price exceeds the net fair value of assets acquired and liabilities assumed is recorded as goodwill. Acquisitions that do not meet the definition of a business combination under the ASC are accounted for as asset acquisitions. Asset acquisitions are accounted for by allocating the cost of the acquisition to the individual assets acquired and liabilities assumed on a relative fair value basis. Goodwill is not recognized in an asset acquisition with any consideration in excess of net assets acquired allocated to acquired assets on a relative fair value basis. Transaction costs are expensed in a business combination and are considered a component of the cost of the acquisition in an asset acquisition.

In March 2020, we recognized goodwill of \$30.4 million from the acquisitions of Paradigm and Viomics. We evaluate goodwill impairment on an annual basis or more frequently should an event or change in circumstance occur that indicates that the carrying amount is in excess of the fair value. There were no impairment losses for the periods ended June 30, 2020 and December 31, 2019. Refer to Note 5 and Note 16 of the condensed consolidated financial statements included in this Quarterly Report for further discussion of the goodwill recorded.

***Recent Accounting Pronouncements***

See Note 1 in the Notes to Condensed Consolidated Financial Statements for the discussion of Recent Accounting Pronouncements.

**Off-Balance Sheet Arrangements**

As of June 30, 2020, we had no off-balance sheet arrangements.

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk**

#### *Interest Rate Risk*

Our exposure to market risk is principally confined to our cash, cash equivalents and marketable securities. We invest our cash, cash equivalents, and marketable securities in securities of the U.S. governments and its agencies and in investment-grade, highly liquid investments consisting of commercial paper, bank certificates of deposit, and corporate bonds, which as of June 30, 2020 and December 31, 2019 were classified as available-for-sale. We place our cash, cash equivalents, restricted cash, and marketable securities with high-quality financial institutions, limit the amount of credit exposure to any one institution, and have established investment guidelines relative to diversification and maturities designed to maintain safety and liquidity.

Based on a hypothetical ten percent adverse movement in interest rates, the potential losses in future earnings, fair value of risk-sensitive financial instruments, and cash flows are immaterial, although the actual effects may differ materially from the hypothetical analysis. While we believe our cash, cash equivalents, restricted cash, and marketable securities do not contain excessive risk, we cannot provide absolute assurance that, in the future, our investments will not be subject to adverse changes in market value. In addition, we maintain significant amounts of cash, cash equivalents, restricted cash, and marketable securities at one or more financial institutions that are in excess of federally insured limits. Given the potential instability of financial institutions, we cannot provide assurance that we will not experience losses on these deposits. We do not utilize interest rate hedging agreements or other interest rate derivative instruments.

A hypothetical ten percent change in interest rates would not have a material adverse impact on our future operating results or cash flows. All of our significant interest-bearing liabilities bear interest at fixed rates and therefore are not subject to fluctuations in market interest rates; however, because these interest rates are fixed, we may be paying a higher interest rate, relative to market, in the future if circumstances change.

#### *Foreign Currency Risk*

Substantially all of our revenues are recognized in U.S. dollars, although a growing percentage is denominated in foreign currency as we continue to expand into markets outside of the U.S. Certain expenses related to our international activities are payable in foreign currencies. As a result, factors such as changes in foreign currency exchange rates or weak economic conditions in foreign markets will affect our financial results.

Prior to 2019, the functional currency for each of our international subsidiaries was its local currency. For 2019 our international subsidiaries use the U.S. dollar as the functional currency, resulting in us not being subject to gains and losses from foreign currency translation of the subsidiary financial statements. In September 2017, Genomic Health (now a wholly owned subsidiary) started entering into forward contracts to mitigate the impact of adverse movements in foreign exchange rates related to the re-measurement of monetary assets and liabilities and hedge our foreign currency exchange rate exposure. As of June 30, 2020, we had open foreign currency forward contracts with notional amounts of \$16.0 million. Although the impact of currency fluctuations on our financial results has been immaterial in the past, there can be no guarantee that the impact of currency fluctuations related to our international activities will not be material in the future.

#### **Item 4. Controls and Procedures**

As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our management, including our principal executive officer and our principal financial officer, of the effectiveness of our disclosure controls and procedures, as defined in Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the “Exchange Act”). Based upon that evaluation, our principal executive officer and our principal financial officer concluded that, as of June 30, 2020, our disclosure controls and procedures were effective. Disclosure controls and procedures enable us to record, process, summarize and report information required to be included in our Exchange Act filings within the required time period. Our disclosure controls and procedures include controls and procedures designed to ensure that information required to be disclosed by us in the periodic reports filed with the SEC is accumulated and communicated to our management, including our principal executive, financial and accounting officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

In November 2019, the Company acquired all of the outstanding capital stock of Genomic Health (see Note 16 to the accompanying consolidated financial statements for additional information). As of June 30, 2020, management is in the process of evaluating and integrating the internal controls of Genomic Health into the Company’s existing operations. Other than the controls enhanced or implemented to integrate the Genomic Health business, there have been no changes in the Company’s internal controls over financial reporting during the quarter ended June 30, 2020 that have materially affected, or are reasonably likely to materially affect, the Company’s internal controls over financial reporting.

## Part II - Other Information

### Item 1. Legal Proceedings

From time to time we are a party to various legal proceedings arising in the ordinary course of our business. Legal proceedings, including litigation, government investigations and enforcement actions could result in material costs, occupy significant management resources and entail civil and criminal penalties.

The United States Department of Justice (“DOJ”) is investigating Genomic Health’s compliance with the Medicare Date of Service billing regulation. In March 2017, Genomic Health received a civil investigative demand (“CID”) from the U.S. Attorney’s Office for the Eastern District of New York in connection with this matter and has produced specific documents in response to the CID. In July 2019 and January 2020, Genomic Health received additional subpoenas from the DOJ related to this inquiry and we are cooperating with those requests. An adverse outcome could include our being required to pay treble damages, incur civil and criminal penalties, paying attorney’s fees, entering into a corporate integrity agreement, being excluded from participation in government healthcare programs, including Medicare and Medicaid, and other adverse actions that could materially and adversely affect our business, financial condition and results of operations.

In connection with our combination with Genomic Health, on June 22, 2020, Suzanne Flannery, a purported former stockholder of Genomic Health, filed a Verified Individual and Class Action Complaint in the Delaware Court of Chancery, captioned Flannery v. Genomic Health, Inc., et al., C.A. No. 2020-0492. The complaint asserts individual and class action claims, including: (i) a violation of 8 Del. C. § 203 by Genomic Health’s former directors; (ii) conversion by Genomic Health, Exact and Spring Acquisition Corp.; (iii) breach of fiduciary duty by Genomic Health’s former directors; (iv) breach of fiduciary duty by a purported controlling group of former Genomic Health stockholders comprised of funds managed by former Genomic Health directors, Julian Baker and Felix Baker; and (v) aiding and abetting breach of fiduciary duty against Exact, Spring Acquisition and Goldman Sachs & Co. LLC, Genomic Health’s financial advisor in the combination. The complaint seeks, among other things, declaratory relief, unspecified monetary damages and attorneys’ fees and costs. All defendants intend to move to dismiss the complaint.

### Item 1A. Risk Factors

We operate in a rapidly changing environment that involves a number of risks that could materially affect our business, financial condition or future results, some of which are beyond our control. In addition to the other information set forth in this report, the risks and uncertainties that we believe are most important for you to consider are discussed in Part I, “Item 1A. Risk Factors” in the 2019 Form 10-K and in Part II, “Item 1A. Risk Factors” in our subsequently filed Quarterly Reports on Form 10-Q. Other than the factors set forth below, there have been no material changes to the risk factors described in the 2019 Form 10-K and in subsequently filed Quarterly Reports on Form 10-Q.

***The COVID-19 outbreak has and may further materially and adversely affect our business and financial results.***

The COVID-19 outbreak, which the World Health Organization has classified as a pandemic, together with related precautionary measures, began to materially disrupt our business in March 2020 and may continue to disrupt our business for an unknown period of time. The territories in which we market, sell, distribute and perform our tests are attempting to address the COVID-19 pandemic in varying ways, including stay-at-home orders, temporarily closing businesses, restricting gatherings, restricting travel, and mandating social distancing and face coverings. Certain jurisdictions have begun re-opening only to return to restrictions due to increases in new COVID-19 cases. The level and nature of the disruption caused by COVID-19 is unpredictable, may be cyclical and long-lasting and may vary from location to location. As a result, we anticipate significant impact to at least our 2020 operating results, including our revenues, margins, and cash utilization, among other measures.

Beginning in March 2020, we undertook temporary precautionary measures intended to help minimize the risk of the virus to our employees, including requiring most employees to work remotely; suspending field-based, face-to-face interactions by our sales force; requiring on-site employees to undergo COVID-19 testing, wear personal protective equipment (including face masks or shields) and maintain social distancing; pausing all non-essential travel worldwide for our employees; and limiting employee attendance at industry events and in-person work-related meetings, to the extent those events and meetings are continuing. Our commercial partner for Cologuard, Pfizer, Inc. (“Pfizer”) has taken similar precautions, including suspending face-to-face interactions between sales representatives and healthcare providers.

We expect to adjust our precautionary measures at our various locations based on local recovery levels and applicable governmental regulations. For example, a portion of our sales force has recommenced field-based interactions, although access to healthcare providers remains limited. Our business could be negatively affected if we take excessive, ineffective or inadequate precautions.

The COVID-19 pandemic has materially impacted our business, and may continue to impact our business for an unknown period of time. Such impacts may include the following:

- Both our and Pfizer’s sales teams have been, and for an extended period of time may continue to be, limited in their interactions with healthcare providers, and therefore, also limited in their ability to engage in various types of healthcare provider education activities as contemplated by our and Pfizer’s Cologuard promotion agreement;
- We and Pfizer may continue to be limited in performing healthcare provider education and other activities contemplated by the promotion agreement and therefore may not realize the expected benefits from the promotion agreement. Before the pandemic, we were already discussing potential modifications of the promotion agreement with Pfizer, and those discussions have continued and have been affected by the pandemic. Any failure to conclude those negotiations in a manner satisfactory to us and to Pfizer could, among other things, have an adverse impact on our relationship with Pfizer or result in either party electing to terminate the agreement early;
- Healthcare providers or patients have canceled or delayed scheduling, and for an extended period of time may continue to cancel or delay scheduling, standard wellness visits and other non-emergency appointments and procedures (including mammograms and prostate cancer screenings), contributing to a decline in orders for our products or services;
- Restrictions on travel, commerce and shipping may prevent patients and pathologists from shipping samples to our clinical laboratories;
- Illnesses, quarantines, financial hardships, restrictions on travel, commerce and shipping, or other consequences of the pandemic, may disrupt our supply chain or other business relationships, and we or other parties may assert rights under force majeure clauses to excuse performance;
- We have experienced, and for an extended period of time may continue to experience, reduced volumes at our clinical laboratories and we may need to suspend operations at some or all of our clinical laboratories;
- We have taken, and may take additional, cost cutting measures, which may hinder our efforts to commercialize our products or delay the development of future products and services. We might not realize all of the cost savings we expect to achieve as a result of those efforts;
- We and our partners have postponed or cancelled clinical studies, which may delay or prevent our launch of future products and services;
- Our workforce, much of which has been asked to work remotely in an effort to reduce the spread of COVID-19, may be infected by the virus or otherwise distracted;
- A combination of factors, including infection from the virus, supply shortfalls, and inability to obtain or maintain equipment, could adversely affect our lab capacity and our ability to meet the demand for our testing services. In March of 2020 we began offering a COVID-19 test and by devoting lab capacity to that test, we may experience capacity limitations that adversely affect our ability to provide Cologuard and other tests that may generate more revenue and higher profits; and
- We may inaccurately estimate the duration or severity of the COVID-19 pandemic, which could cause us to misalign our staffing, spending, activities and precautionary measures with market current or future market conditions.

Despite our efforts, the ultimate impact of COVID-19 depends on factors beyond our knowledge or control, including the duration and severity of the outbreak, as well as third-party actions taken to contain its spread and mitigate its public health effects.

Additionally, the anticipated economic consequences of the COVID-19 pandemic have adversely impacted financial markets, resulting in high share price volatility, reduced market liquidity, and substantial declines in the market prices of the securities of most publicly traded companies, including Exact. Volatile or declining markets for equities could adversely affect our ability to raise capital when needed through the sale of shares of common stock or other equity or equity-linked securities. If these market conditions persist when and if we need to raise capital, and if we are able to sell shares of our common stock under then prevailing market conditions, we might have to accept lower prices for our shares and issue a larger number of shares than might have been the case under better market conditions, resulting in significant dilution of the interests of our stockholders.

***We currently offer COVID-19 testing, but there can be no assurance that we will continue to be able to successfully offer, perform or generate revenues from the test.***

In late March 2020, we began providing COVID-19 testing. The U.S. Food and Drug Administration (FDA) has granted us Emergency Use Authorization to test for SARS-CoV-2, the virus that causes COVID-19, in upper respiratory samples.

While we have entered into a limited number of contracts to provide COVID-19 testing and expect to pursue additional contracts, there can be no assurance that our efforts to offer and perform COVID-19 testing will be successful. The success of our test, our ability to continue to generate revenues from COVID-19 testing, and our ability to generate profits from COVID-19 testing will depend on a variety of factors, including:

- the level of demand for COVID-19 testing, the price we are able to charge for performing the test, and the length of time for which that demand persists;
- the availability of COVID-19 testing, from other laboratories;
- acceptance of our COVID-19 testing in the medical community;
- the emergence of other forms of COVID-19 testing (including antigen and antibody screening tests) and other sample collection methods, which healthcare providers and patients may prefer to our test;
- the period of time for which the FDA will permit us to offer COVID-19 testing under an Emergency Use Authorization;
- our ability to maintain regulatory approvals to perform and market COVID-19 testing and to respond to any changes in regulatory requirements;
- the potential for supply disruptions and our reliance on certain single-source suppliers;
- the potential for disruption in the delivery of patient samples to our laboratories;
- the capacity of our laboratories to satisfy both COVID-19 testing and other testing demands;
- the complexity of billing for, and collecting revenue for, our test;
- healthcare provider and patient compliance with instructions for performing the nasal swab and providing samples to our laboratories;
- our ability to maintain laboratory operations during the COVID-19 pandemic and to perform the test accurately and punctually; and
- the ease of use of our ordering and reporting process.

Additionally, we have previously only offered cancer screening and diagnostic tests. The addition of COVID-19 testing may divert resources and distract management's attention from other projects that may be more profitable or strategic. If we are unable to successfully provide COVID-19 testing while continuing to operate our existing Screening and Precision Oncology business, our results of operations, financial position and reputation may suffer.

***Our business is subject to complex and evolving laws, as well as customer and patient expectations, regarding data privacy, protection and security.***

The interpretation and application of consumer, health related and data protection laws in the U.S., Europe and elsewhere are often uncertain, contradictory and in flux. In order to mitigate concerns about overseas data transfers and to comply with provisions of the GDPR and its predecessor regulations, we self-certified with the Department of Commerce for compliance with the U.S.-E.U. Privacy Shield. However, on July 16, 2020, the Court of Justice of the European Union rendered its judgment in *Data Protection Commissioner v. Facebook Ireland*, invalidating the U.S.-E.U. Privacy Shield program. Although we expect to implement other measures to ensure compliance with the GDPR, the changing legal landscape could cause us to incur substantial costs or change our operations and compliance procedures, all of which may adversely affect our business.

If we fail to comply with the GDPR and other applicable data privacy, protection and security laws, or if we fail to satisfy customer or patient concerns regarding data handling, we could be subject to government enforcement actions, private litigation, civil or criminal penalties, reduced orders and adverse publicity.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

Not applicable.

**Item 3. Defaults Upon Senior Securities**

Not applicable.

**Item 4. Mine Safety Disclosures**

Not applicable.

**Item 5. Other Information**

Not applicable.

**Item 6. Exhibits**

The following documents are filed as part of this Form 10-Q.

Exhibit Number	Exhibit Description	Filed with This Report	Incorporated by Reference herein from Form or Schedule	Filing Date	SEC File / Registration Number
<a href="#">3.1</a>	Sixth Amended and Restated Certificate of Incorporation of the Registrant		S-1 (Exhibit 3.3)	12/4/2000	333-48812
<a href="#">3.2</a>	Amendment to Sixth Amended and Restated Certificate of Incorporation of the Registrant		8-K (Exhibit 3.1)	7/24/2020	001-35092
<a href="#">3.3</a>	Fourth Amended and Restated By-Laws of the Registrant		8-K (Exhibit 3.1)	1/31/2020	001-35092
<a href="#">4.2</a>	Third Supplemental Indenture, dated February 27, 2020, between the Company and U.S. Bank National Association, as Trustee (including the form of 0.3750% Convertible Senior Notes due 2028).		8-K (Exhibit 4.2)	2/27/2020	001-35092
<a href="#">10.1*</a>	Employment Agreement, dated as of April 20, 2020, by and between Gisela Paulsen and the Registrant	X			
<a href="#">10.2*</a>	The Registrant's Non-Employee Director Compensation Policy, dated April 21, 2020	X			
<a href="#">10.3</a>	Amendment No. 1 to Construction Loan Agreement and Construction Note, dated June 30, 2020, by and between Fifth Third Bank, National Association and CG Growth LLC	X			
<a href="#">31.1</a>	Certification Pursuant to Rule 13(a)-14(a) or Rule 15d-14(a) of Securities Exchange Act of 1934	X			
<a href="#">31.2</a>	Certification Pursuant to Rule 13(a)-14(a) or Rule 15d-14(a) of Securities Exchange Act of 1934	X			
<a href="#">32.1</a>	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	X			
101	The following materials from the Quarterly Report on Form 10-Q of Exact Sciences Corporation for the quarter ended September 30, 2019 filed on October 29, 2019, formatted in Inline eXtensible Business Reporting Language ("iXBRL"): (i) Condensed Consolidated Balance Sheets, (ii) Condensed Consolidated Statements of Operations, (iii) Condensed Consolidated Statement of Changes in Stockholders' Equity, (iv) Condensed Consolidated Statements of Cash Flows and (v) related notes to these financial statements	X			
104	The cover page from our Quarterly Report for the period ended September 30, 2019, filed with the Securities and Exchange Commission on October 29, 2019, is formatted in Inline Extensible Business Reporting Language ("iXBRL")	X			

\* Indicates a management contract or any compensatory plan, contract or arrangement.

**SIGNATURES**

Pursuant to the requirements 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.

EXACT SCIENCES CORPORATION

Date: July 31, 2020

By: /s/ Kevin T. Conroy

Kevin T. Conroy  
President and Chief Executive Officer  
(Principal Executive Officer)

Date: July 31, 2020

By: /s/ Jeffrey T. Elliott

Jeffrey T. Elliott  
Chief Financial Officer  
(Principal Financial and Accounting Officer)

## EMPLOYMENT AGREEMENT

This **EMPLOYMENT AGREEMENT** (“**Agreement**”) is entered into effective as of April 20, 2020 (the “**Effective Date**”), by and between Gisela Paulsen (“**Employee**”) and Exact Sciences Corporation, a Delaware corporation (the “**Company**,” and together with Employee, the “**Parties**”).

**WHEREAS**, the Company desires to employ Employee as its General Manager, Precision Oncology, and Employee desires to accept such employment, under this Agreement.

**NOW, THEREFORE**, in consideration of the mutual covenants and conditions hereinafter set forth, and other good and valuable consideration, receipt of which is hereby acknowledged, the Parties agree as follows:

1. **Employment.** The Company shall employ Employee as the Company’s General Manager, Precision Oncology and Employee shall serve the Company in such position, under this Agreement and subject to the authority and direction of the Board of Directors of the Company (the “**Board**”) or its designee. During the Employment Term, Employee shall (a) devote his or her full-time professional efforts, attention and energies to the business of the Company, (b) owe an undivided duty of loyalty to the Company and (c) faithfully and to the best of Employee’s abilities perform his or her duties hereunder. In addition to continuing to serve in her roles for the non-profit organizations identified in Schedule 1 attached hereto, which shall be subject to Employee’s compliance with the Company’s Conflict of Interest, Code of Business Conduct and Ethics, and all other relevant policies, Employee may serve as a director or committee member of other corporations, charitable organizations and trade associations (provided that the Company is notified in advance of all such positions) and may otherwise engage in charitable and community activities, deliver lectures and fulfill speaking engagements (with the prior approval of the CEO), and manage personal investments, but only if such services and activities do not interfere with the performance of Employee’s duties and responsibilities under this Agreement.

2. **Term of Employment.** Employee’s employment (the “**Employment Term**”) shall continue until terminated as provided in **Section 6** below. A “**Separation from Service**” means the termination of Employee’s employment with, and performance of services for, the Company and each Affiliate. If Employee is employed by, or performing services for, an Affiliate or a division of the Company or an Affiliate, Employee shall not be deemed to incur a Separation from Service if such Affiliate or division ceases to be an Affiliate or division of the Company, as the case may be, and Employee immediately thereafter becomes an employee of (or service provider to) the Company or an Affiliate or a successor company or an affiliate or subsidiary thereof. Approved temporary absences from employment because of illness, vacation or leave of absence and transfers among the Company and its Affiliates will not be considered a Separation from Service. Notwithstanding the foregoing, with respect to any amount or benefit under this Agreement that constitutes nonqualified deferred compensation under Section 409A of the Internal Revenue Code of 1986, as amended (the “**Code**”), and that is payable upon a Separation from Service, “Separation from Service” means a “separation from service” as defined under Code Section 409A.

3. **Compensation.** During the Employment Term, Employee shall receive the following compensation from the Company.

3.1 **Base Salary.** Employee’s annual base salary on Effective Date is five hundred and fifty thousand dollars and ten cents (\$550,000.10), payable in accordance with the normal payroll practices of the Company (“**Base Salary**”). Employee’s Base Salary shall be subject to annual review by the Company’s Chief Executive Officer (the “**CEO**”), the Board and its Compensation Committee (the “**Committee**”). During the Employment Term, the Company shall periodically, in the discretion of, and at intervals determined by, the Committee, review the Base Salary amount to determine any modifications.

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In no event shall the Base Salary, following any such modification, be less than the Base Salary amount for the immediately preceding twelve (12)-month period other than as permitted in **Section 6.1(c)** below.

3.2 **Discretionary Year-End Bonus.** Employee shall be eligible to be considered for a discretionary year-end cash bonus each calendar year (“Year-End Bonus”), subject to any terms and conditions established for such Year-End Bonus by the Company, including but not limited to the terms and conditions contained in the Company’s Year-End Bonus policy or other such communications to employees. Employee’s target Year-End Bonus percentage for each calendar year shall be sixty percent (60%) of his or her Base Salary as of January 1 of the applicable new calendar year. Employee acknowledges that any such Year-End Bonus shall be entirely within the discretion of the CEO and the Committee based upon the achievement of goals (including corporate and individual goals) and other discretionary factors as determined by the Board or the Committee after consultation with the CEO. Except as otherwise provided in the discretion of the Committee or in this Agreement, Employee shall not be eligible to be considered for, or to receive, a Year-End Bonus for any calendar year unless he or she remains employed with the Company through December 31 of the applicable calendar year and through the date of payment of such Year-End Bonus. If a Year-End Bonus is awarded to Employee, it shall be paid no later than March 15 following the end of the calendar year for which it was awarded. Although the Company typically prorates any Year-End Bonus awarded if an employee is only employed for part of the relevant calendar year, the Company will pay Employee a Year-End Bonus for 2020 that is not reduced to reflect that she was employed by Company for less than a full year in 2020 (i.e., Employee shall be eligible to earn a target Year-End Bonus for 2020 in an amount equal to three hundred thirty thousand dollars and six cents (\$330,000.06), which is sixty percent (60%) of her annual Base Salary).

3.3 **Equity Incentives.**

(a) The Board, upon the recommendation of the Committee, or the Committee, may grant Employee from time to time options to purchase shares of the Company’s common stock and other equity compensation plan awards, including restricted stock units, both as a reward for past individual and corporate performance and as an incentive for future performance. Such options and other awards, if granted, shall be pursuant to the Company’s then current equity compensation plan. For purposes of this Agreement, “**Equity Awards**” means Employee’s stock options, stock appreciation rights, restricted stock units (including performance stock units) and restricted shares (including performance shares), in each case that are issued and outstanding under a Company equity compensation plan; and, for the avoidance of doubt, Equity Awards shall not include any rights or benefits under the Company’s 2010 Employee Stock Purchase Plan, as amended, or any successor plan thereto. For purposes of this Agreement, a “**Performance Award**” means an Equity Award that vests or becomes earned subject to the attainment of performance goals.

(b) Subject to Board approval, Employee will receive an initial grant of restricted stock units (“RSUs”) with a value of three million eight hundred seventy five thousand dollars (\$3,875,000) to be settled in shares of the Company’s common stock based on the 30-day trading average at the time of the grant, pursuant to the Company’s stock option plan upon commencement of employment. Twenty-five percent (25%) of the shares underlying the RSUs shall vest on the first anniversary of the date of the grant and annually thereafter, subject to the acceleration of vesting (i) as described in Section 6.3 hereof, (ii) as described in Sections 7.1(d) and 7.2(b) hereof, and (iii) as may be set forth in the grant agreements issued by the Company, as amended, provided, that in the event of a conflict between any grant agreement and this Agreement, this Agreement shall control.

4. Benefits.

4.1 Benefits. Employee shall be entitled to participate in the sick leave, insurance (including medical, life and long-term disability), profit-sharing, retirement and other benefit programs that are generally provided to similarly situated and performing employees of the Company, all in accordance with the rules and policies of the Company as to such matters and the plans established therefore.

4.2 PTO and Paid Holidays. Employee shall receive paid time off (“PTO”) and Paid Holidays (including dates designated as Company-wide holidays and floating personal holidays) as provided by and subject to the terms of the Company’s applicable policies. These policies presently provide full-time employees with four (4) weeks of PTO and twelve (12) Paid Holidays per calendar year (pro-rated based on start-date).

4.3 Indemnification. To the fullest extent permitted by applicable law or the Company’s articles of incorporation and bylaws, the Company shall, during the Employment Term and after Employee’s Separation from Service, indemnify Employee (including providing advancement of expenses) for any judgments, fines, amounts paid in settlement and reasonable expenses, including attorneys’ fees, incurred by Employee in connection with the defense of any lawsuit, arbitration, legal or administrative proceeding, or other claim, or investigation to which Employee is made, or threatened to be made, a party or witness by reason of being or having been an officer, director or employee of the Company or any of its subsidiaries or affiliates as deemed under the Securities Exchange Act of 1934, as amended (“Affiliates”), or a fiduciary of any of their benefit plans, other than actions by the Company against Employee alleging breach of this Agreement by Employee.

4.4 Liability Insurance. Both during the Employment Term and after Employee’s Separation from Service, the Company shall cause Employee to be covered under a directors and officers’ liability insurance policy for his or her acts (or non-acts) as an officer and/or director of the Company or any of its Affiliates, as applicable under such policy. Such policy shall be maintained by the Company, at its expense in an amount and on terms (including the time period of coverage after Employee’s Separation from Service) at least as favorable to Employee as policies covering the Company’s other executive officers and directors.

5. Business Expenses. Upon submission of a satisfactory accounting by Employee, consistent with the policies of the Company, the Company shall reimburse Employee for any reasonable and necessary out-of-pocket expenses actually incurred by Employee in the furtherance of the business of the Company or any of its Affiliates.

6. Separation from Service.

6.1 By Employee.

(a) Without Good Reason. Employee may initiate Employee’s Separation from Service under this Agreement at any time without Good Reason with at least thirty (30) business days’ written notice (the “**Employee Notice Period**”) to the Company. Upon Separation from Service by Employee under this section, the Company may, in its sole discretion and at any time during the Employee Notice Period, suspend Employee’s duties for the remainder of the Employee Notice Period, as long as the Company continues to employ and pay compensation to Employee, including benefits and equity vesting, throughout the Employee Notice Period.

(b) With Good Reason. Subject to **Section 7.1** below, Employee may initiate Employee's Separation from Service under this Agreement with Good Reason at any time within ninety (90) days after the occurrence of an event constituting Good Reason.

(c) Good Reason Defined. "**Good Reason**" means, provided that Employee has complied with the Good Reason Process following the occurrence of any of the following events without Employee's consent: (i) Employee's Base Salary is reduced (x) in a manner that is not applied proportionately to other senior executive officers of the Company or (y) by more than fifteen percent (15%) of Employee's then current Base Salary; (ii) Employee's duties, authority or responsibilities are materially reduced or are materially inconsistent with the scope of authority, duties and responsibilities of Employee's position; (iii) the occurrence of a material breach by the Company of any of its obligations to Employee under this Agreement; or (iv) a relocation of Employee's principal place of employment by more than thirty-five (35) miles.

(d) Good Reason Process. "**Good Reason Process**" means that (i) Employee reasonably determines in good faith that a Good Reason condition has occurred; (ii) Employee notifies the Company in writing of the occurrence of the Good Reason condition within sixty (60) days of such occurrence; (iii) Employee cooperates in good faith with the Company's efforts, for a period of not less than thirty (30) days following such notice (the "**Cure Period**"), to remedy the condition; (iv) notwithstanding such efforts, the Good Reason condition continues to exist following the Cure Period; and (v) Employee Separates from Service for Good Reason within sixty (60) days after the end of the Cure Period. If the Company cures the Good Reason condition during the Cure Period, and Employee Separates from Service due to such condition (notwithstanding its cure), then Employee shall not be deemed to have Separated from Service for Good Reason.

## 6.2 By the Company.

(a) With Cause. The Company may initiate Employee's Separation from Service under this Agreement for Cause immediately upon written notice to Employee.

(b) Cause Defined. "**Cause**" means any of the following:

- i. Employee's willful failure or refusal to perform Employee's duties that continues for more than three (3) days after written notice from the Company;
- i. Employee's willful failure or refusal to follow or comply with any Company policy, rule or procedure that continues for more than three (3) days after written notice from the Company;
- ii. Employee's commission of any fraud or embezzlement in connection with Employee's duties or committed in the course of Employee's employment;
- iii. Employee's gross negligence or willful misconduct with regard to the Company or any of its Affiliates resulting in a material economic loss to the Company;

- iv. Employee's conviction of, or plea of guilty or nolo contendere to, a felony or other crime involving moral turpitude;
- v. Employee's conviction of, or plea of guilty or nolo contendere to, a misdemeanor the circumstances of which involve fraud, dishonesty or moral turpitude and that is substantially related to the circumstances of Employee's job with the Company;
- vi. Employee's willful and material violation of any statutory or common law duty of loyalty to the Company or any of its Affiliates;
- vii. Employee's material breach of this Agreement, the Non-Disclosure and Invention Agreement or the Non-Solicitation Agreement; or
- viii. Employee's material breach of the Company's policies prohibiting harassment, discrimination, and/or retaliation, the Company's Code of Business Conduct and Ethics, and/or the Company's Insider Trading Policy.

A Separation from Service for Cause shall be deemed to include a determination by the Company in its sole discretion following Employee's Separation from Service that circumstances existing prior to the Separation from Service or during the payment of severance benefits would have entitled the Company or an Affiliate to have terminated Employee's service for Cause. All rights Employee has or may have under this Agreement shall be suspended automatically during the pendency of any investigation by the Company, or during any negotiations between the Parties, regarding any actual or alleged act or omission by Employee of the type described in the applicable definition of Cause.

(c) Without Cause. Subject to **Section 7.1** below, the Company may initiate Employee's Separation from Service under this Agreement without Cause upon at least thirty (30) days' written notice (the "**Company Notice Period**") to Employee. Upon any Separation from Service initiated by the Company without Cause, the Company may, in its sole discretion and at any time during the Company Notice Period, suspend Employee's duties for the remainder of the Company Notice Period, as long as the Company continues to employ and pay compensation to Employee, including benefits and equity vesting, throughout the Company Notice Period.

6.3 Death or Disability. Notwithstanding **Section 2** above, in the event of the death of Employee or disability of Employee that prevents Employee from performing the Essential Job Functions of his or her position (even with a Reasonable Accommodation) during the Employment Term, (i) Employee shall incur a Separation from Service and this Agreement shall immediately and automatically terminate, (ii) the Company shall pay Employee (or in the case of death, Employee's designated beneficiary) Base Salary and accrued but unpaid bonuses, in each case up to the date of Separation from Service and (iii) one hundred percent (100%) of Employee's Equity Awards shall become fully vested and exercisable; and Employee shall be entitled to exercise such Equity Awards (if exercisable) in accordance with **Section 7.6** below. None of Employee, his or her beneficiary or his or her estate shall be entitled to any severance benefits set forth in **Section 7** below if Employee's Separation from Service occurs as a result of Employee's death or disability. In the event of the disability of Employee, the Parties shall comply with applicable federal, state and local law. For purposes of this **Section 6.3**, "**Essential Job Functions**" and "**Reasonable Accommodation**" shall have the meanings of these terms under applicable

law, and shall be interpreted to grant Employee the same, and no greater, rights and responsibilities provided by applicable law.

6.4 Survival. Each of the Non-Disclosure and Invention Agreement and the Non-Solicitation Agreement described in **Section 8** below and attached hereto as **Exhibit A** and **Exhibit B**, respectively, shall survive the termination of this Agreement.

7. Severance and Other Rights Relating to Separation from Service and Change in Control.

7.1 Separation from Service by the Company without Cause or by Employee for Good Reason. If the Company initiates Employee's Separation from Service without Cause or if Employee initiates Employee's Separation from Service for Good Reason, then subject to the conditions described in **Section 7.3** below, the Company shall provide Employee the following payments and other benefits:

(a) (i) Salary continuation for a period of twelve (12) months at Employee's then current Base Salary, which shall commence on the first payroll date that is on or that immediately follows the sixtieth (60th) day following the Separation from Service; (ii) any accrued but unpaid Base Salary as of the Separation from Service; and (iii) any earned, awarded and accrued, but unpaid, bonus as of the Separation from Service, all on the same terms and at the same times as would have applied had Employee not incurred a Separation from Service.

(b) If Employee elects COBRA coverage for health and/or dental insurance in a timely manner, the Company shall pay the monthly premium payments for such timely elected coverage (consistent with what was in place at the Separation from Service) when each premium is due until the earliest of the following: (i) twelve (12) months from the Separation from Service; (ii) the date Employee obtains new employment that offers health and/or dental insurance that is reasonably comparable to that offered by the Company; or (iii) the date COBRA continuation coverage would otherwise terminate in accordance with the provisions of COBRA. Thereafter, health and dental insurance coverage shall be continued only to the extent required by COBRA and only to the extent Employee timely pays the premium payments himself or herself.

(c) Within thirty (30) days of the Separation from Service, the Company shall pay Employee Ten Thousand Dollars (\$10,000) towards the cost of an outplacement consulting package for Employee.

(d) The time vesting and exercisability of one hundred percent (100%) of Employee's Equity Awards shall accelerate by a period of twelve (12) months; and Employee shall be entitled to exercise such Equity Awards (if exercisable) in accordance with **Section 7.6** below. For purposes of Performance Awards, Employee shall be treated under this **Section 7.1(d)** as having remained in service for an additional twelve (12) months following actual Separation from Service, provided that Performance Awards shall not become vested or earned solely as a result of this **Section 7.1(d)**, and such vesting and earning shall remain subject to the attainment of all applicable performance goals, and such Performance Awards, if and to the extent they become vested or earned, shall be payable at the same time as under the applicable award agreement.

7.2 Change in Control. The Board has determined that it is in the best interests of the Company and its stockholders to ensure that the Company will have the continued dedication of Employee, notwithstanding the possibility, threat or occurrence of a Change in Control. The Board believes it is imperative to diminish the inevitable distraction of Employee by virtue of the personal

uncertainties and risks created by a pending or threatened Change in Control, to encourage Employee's full attention and dedication to the Company currently and in the event of any threatened or pending Change in Control and to provide Employee with compensation and benefits arrangements upon a Change in Control that ensure that the compensation and benefits expectations of Employee will be satisfied and that are competitive with those of other similarly-situated companies. Therefore, in order to accomplish these objectives, the Board has caused the Company to include the provisions set forth in this **Section 7.2**.

(a) Change in Control Defined. "**Change in Control**" means, and shall be deemed to have occurred if, on or after the Effective Date, (i) any "person" (as such term is used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended) or group acting in concert, other than a trustee or other fiduciary holding securities under an employee benefit plan of the Company acting in such capacity or a corporation owned directly or indirectly by the stockholders of the Company in substantially the same proportions as their ownership of stock of the Company, becomes the "beneficial owner" (as defined in Rule 13d-3 under said Act), directly or indirectly, of securities of the Company representing more than fifty percent (50%) of the total voting power represented by the Company's then outstanding voting securities, (ii) during any twelve (12)-month period, individuals who at the beginning of such period constitute the Board and any new director whose election by the Board or nomination for election by the Company's stockholders was approved by a vote of at least two thirds (2/3) of the directors then still in office who either were directors at the beginning of the period or whose election or nomination for election was previously so approved, cease for any reason to constitute a majority thereof, (iii) the consummation of a merger or consolidation of the Company with any other corporation other than a merger or consolidation that would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) at least fifty percent (50%) of the total voting power represented by the voting securities of the Company or such surviving entity outstanding immediately after such merger or consolidation or (iv) the sale or disposition by the Company of (in one (1) transaction or a series of related transactions) all or substantially all of the Company's assets.

(b) Acceleration of Vesting of Equity Awards.

- (i) Upon a Change in Control, the time vesting and exercisability of one hundred percent (100%) of Employee's Equity Awards shall immediately accelerate by a period of twelve (12) months, provided that this **Section 7.2(b)(i)** shall apply to Performance Awards such that if the applicable performance period is scheduled to end within twelve (12) months following the Change in Control, the Performance Award shall be deemed to have been fully vested and earned as of the Change in Control based upon the greater of (A) an assumed achievement of all relevant performance goals at the "target" level or (B) the actual level of achievement of all relevant performance goals as of the Change in Control.
- (ii) If within four (4) months before or twelve (12) months after a Change in Control, Employee incurs a Separation from Service initiated by the Company (or a successor) without Cause or initiated by Employee for Good Reason, then one hundred percent (100%) of Employee's Equity Awards shall become fully vested and exercisable; and Employee shall

be entitled to exercise such Equity Awards (if exercisable) in accordance with **Section 7.6** below. Performance Awards shall be deemed to have been fully vested and earned under this **Section 7.2(b)(ii)** based upon the greater of (1) an assumed achievement of all relevant performance goals at the “target” level or (2) the actual level of achievement of all relevant performance goals as of the Change in Control.

7.3 **Conditions Precedent.** The Company’s obligations to Employee described in **Sections 7.1** and **7.2** above are contingent on Employee’s delivery to the Company of a signed waiver and release of claims against the Company and its Affiliates in a form reasonably satisfactory to the Company within twenty-one (21) days (or forty-five (45) days to the extent required by applicable law) after the day on which the Company provides the release to Employee, and not revoking such release (if a right to revocation exists under applicable law). Moreover, Employee’s rights to receive ongoing payments and benefits pursuant to **Sections 7.1** and **7.2** above (including the right to ongoing payments under the Company’s equity compensation plans) are conditioned on Employee’s ongoing compliance with his or her obligations as described in **Section 8** below, and Company may set off any such payments or benefits, except to the extent prohibited by law, in the event of Employee’s failure to comply with any such obligations. Any cessation by the Company of any such payments and benefits shall be in addition to, and not in lieu of, any and all other remedies available to the Company for Employee’s breach of his or her obligations described in **Section 8** below.

7.4 **No Severance Benefits.** Employee shall not be entitled to any severance benefits if Employee initiates Employee’s Separation from Service without Good Reason or if the Company initiates Employee’s Separation from Service with Cause; provided, however, that Employee shall be entitled to (i) Base Salary prorated through the Separation from Service; and (ii) medical coverage and other benefits required by law and plans (as provided in **Section 7.5** below).

7.5 **Benefits Required by Law and Plans.** In the event of Employee’s Separation from Service, Employee shall be entitled to medical and other insurance coverage or other benefits, if any, as is required by law and, to the extent not inconsistent with this Agreement, to receive such additional benefits as Employee may be entitled under the express terms of applicable benefit plans (other than bonus or severance plans) of the Company or its Affiliates.

7.6 **Exercise Period of Equity Awards after Separation from Service.** Notwithstanding any provision of this Agreement or any applicable Equity Award agreement to the contrary, (i) in the event of Employee’s Separation from Service initiated by the Company without Cause or by Employee for Good Reason or due to Employee’s disability or death, Employee’s vested and exercisable Equity Awards shall remain exercisable (if exercisable) until the earlier of two (2) years from such Separation from Service or the latest date on which those Equity Awards expire or are eligible to be exercised under the applicable award agreements, determined without regard to such Separation from Service and (ii) in the event of Employee’s Separation from Service initiated by the Company for Cause or by Employee without Good Reason, the exercise periods of Employee’s Equity Awards shall continue to be governed by the terms of the applicable award agreements.

8. **Restrictions.**

8.1 **Non-Disclosure and Invention Agreement.** In consideration for employment or continued employment by the Company, as well as the salary and additional compensation and benefits described in this Agreement, as well as the Company’s provision of confidential information of the Company to

Employee, Employee has entered or shall enter into and shall comply with the terms of the Exact Sciences Corporation Non-Disclosure and Invention Agreement in substantially the form attached hereto as **Exhibit A** (the “**Non-Disclosure and Invention Agreement**”).

8.2 **Non-Solicitation Agreement.** In consideration for employment or continued employment by the Company, as well as the salary and additional compensation and benefits described in this Agreement, as well as the Company’s provision of confidential information of the Company to Employee, Employee has entered or shall enter into and shall comply with the terms of the Exact Sciences Corporation Non-Solicitation Agreement in substantially the form attached hereto as **Exhibit B** (the “**Non-Solicitation Agreement**”).

9. **Arbitration.** Unless other arrangements are agreed to by the Parties, any disputes arising under or in connection with this Agreement, other than a dispute in which the primary relief sought is an equitable remedy such as an injunction, shall be resolved by binding arbitration to be conducted pursuant to the Agreement for Arbitration Procedures of Certain Employment Disputes in substantially the form attached hereto as **Exhibit C**.

10. **Assignments; Transfers; Effect of Merger.** No rights or obligations of the Company under this Agreement may be assigned or transferred by the Company except that such rights or obligations may be assigned or transferred pursuant to a merger or consolidation, or pursuant to the sale or transfer of all or substantially all of the assets of the Company, provided that the assignee or transferee is the successor to all or substantially all of the assets of the Company. This Agreement shall not be terminated by any merger, consolidation or transfer of assets of the Company referred to above. In the event of any such merger, consolidation or transfer of assets, this Agreement shall be binding upon the surviving or resulting corporation or the person or entity to which such assets are transferred. Concurrently with any merger, consolidation or transfer of assets referred to above, the Company shall cause any successor or transferee unconditionally to assume, either contractually or as a matter of law, all of the obligations of the Company hereunder. This Agreement shall inure to the benefit of, and be enforceable by or against, Employee or Employee’s personal or legal representatives, executors, administrators, successors, heirs, distributees, designees and legatees. None of Employee’s rights or obligations under this Agreement may be assigned or transferred by Employee other than Employee’s rights to compensation and benefits, which may be transferred only by will or operation of law. If Employee should die while any amounts or benefits have been accrued by Employee but not yet paid as of the date of Employee’s death and which would be payable to Employee hereunder had Employee continued to live, all such amounts and benefits unless otherwise provided herein shall be paid or provided in accordance with the terms of this Agreement to such person or persons appointed in writing by Employee to receive such amounts or, if no such person is so appointed, to Employee’s estate.

11. **No Set-off; No Mitigation Required.** Except as expressly provided otherwise in this Agreement, the obligation of the Company to make any payments provided for hereunder and otherwise to perform its obligations hereunder shall not be affected by any set-off, counterclaim, recoupment, defense or other claim, right or action that the Company may have against Employee or others. In no event shall Employee be obligated to seek other employment or take other action by way of mitigation of the amounts payable to Employee under this Agreement, and such amounts shall not be reduced (except as otherwise specifically provided herein) whether or not Employee obtains other employment.

12. **Taxes.** The Company shall have the right to deduct from any payments made pursuant to this Agreement any and all federal, state and local taxes or other amounts required by law to be withheld.

13. **Code Section 409A.** This Agreement is intended to comply with Code Section 409A to the extent subject thereto, and, accordingly, to the maximum extent permitted, this Agreement shall be interpreted and

administered to be in compliance therewith. Notwithstanding any provision of this Agreement to the contrary, to the extent required to avoid accelerated taxation or tax penalties under Code Section 409A, any amounts or benefits that would otherwise be payable under this Agreement during the six (6)-month period immediately following Employee's Separation from Service shall instead be paid on the first payroll date after the six (6)-month anniversary of Employee's Separation from Service (or Employee's death, if earlier). For purposes of Code Section 409A, Employee's right to receive any installment payments pursuant to this Agreement shall be treated as a right to receive a series of separate and distinct payments. Whenever a payment under this Agreement specifies a payment period with reference to a number of days, the actual date of payment within the specified period shall be in the sole discretion of the Company. Notwithstanding the foregoing, the Company shall not have any obligation to take any action to prevent the assessment of any excise tax or penalty on any person under Code Section 409A and the Company shall not have any liability to any person for such tax or penalty.

14. Code Section 280G. Notwithstanding any provision of this Agreement or any other plan, arrangement or agreement to the contrary, if any of the payments or benefits provided or to be provided by the Company or an Affiliate to Employee or for Employee's benefit under this Agreement or otherwise ("**Covered Payments**") constitute "parachute payments" within the meaning of Code Section 280G and would, but for this **Section 14**, be subject to the excise tax imposed under Code Section 4999 or any similar tax imposed by state or local law or any interest or penalties with respect to such taxes (collectively, the "**Excise Tax**"), then prior to making the Covered Payments, a calculation shall be made comparing (i) the Net Benefit to Employee of the Covered Payments after payment of the Excise Tax to (ii) the Net Benefit to Employee if the Covered Payments are limited to the extent necessary to avoid being subject to the Excise Tax; and if the amount calculated under (i) is less than the amount under (ii), the Covered Payments shall be reduced to the minimum extent necessary to ensure that no portion of the Covered Payments is subject to the Excise Tax. "**Net Benefit**" means the present value of the Covered Payments net of all taxes. All determinations required to be made under this **Section 14** shall be made by the Company in its sole discretion.

15. Miscellaneous. No amendment, modification or waiver of this Agreement or consent to any departure thereof shall be effective unless in writing signed by the Party against whom it is sought to be enforced. This Agreement contains the entire Agreement that exists between the Parties with respect to the subjects herein contained and replaces and supersedes all prior agreements, oral or written, between the Parties with respect to the subjects herein contained. Except as and to the extent expressly provided in this Agreement, nothing herein shall affect any terms in the Non-Disclosure and Invention Agreement, the Non-Solicitation Agreement, the Agreement for Arbitration Procedures of Certain Employment Disputes or any equity compensation plans or corresponding award agreements between the Parties now and hereafter in effect from time to time. If any provision of this Agreement is held for any reason to be unenforceable, the remainder of this Agreement shall remain in full force and effect. Each section is intended to be a severable and independent section within this Agreement. The headings in this Agreement are intended solely for convenience of reference and shall be given no effect in the construction or interpretation of this Agreement. This Agreement is made in the State of California and shall be governed by and construed in accordance with the laws of said State, without regard to principles of conflicts of law.

This Agreement may be executed in one (1) or more counterparts, each of which shall be deemed an original but all of which together shall constitute one (1) and the same instrument. All notices and all other communications provided for in this Agreement shall be in writing and shall be considered duly given upon personal delivery, delivery by nationally reputable overnight courier or on the third (3rd) business day after mailing from within the United States by first class certified or registered mail, return receipt requested, postage prepaid, all addressed to the address set forth below each Party's signature to this Agreement. Any Party may change its address by furnishing notice of its new address to the other Party in writing in accordance herewith, except that any notice of change of address shall be effective only upon receipt.

**IN WITNESS WHEREOF**, Employee and the Company have executed this Employment Agreement as of the Effective Date.

**EMPLOYEE**

Sign  
name: /s/ Gisela Paulsen

Print  
name: Gisela Paulsen

Notice  
address: \_\_\_\_\_  
\_\_\_\_\_

**EXACT SCIENCES CORPORATION**

Sign  
name: /s/ Kevin Conroy

Print  
name: Kevin Conroy

Notice  
address: 441 Charmany Drive  
Madison, WI 53719

**Exact Sciences Corporation**  
**Non-Employee Director Compensation Policy**

The purpose of this Non-Employee Director Compensation Policy of Exact Sciences Corporation, a Delaware corporation (the “Company”), is to provide a total compensation package that enables the Company to attract and retain, on a long-term basis, high caliber directors who are not employees or officers of the Company or its subsidiaries.

In furtherance of the purpose stated above, all non-employee directors shall be paid compensation for services provided to the Company as set forth below:

**A. Initial Compensation**

Upon his or her initial election to the board, each new non-employee director shall be granted restricted stock or deferred stock units having a value equal to \$375,000, with the number of restricted shares or deferred stock units to be issued being determined based on the closing sale price of the Company’s common stock on the date of grant. A director shall elect whether such award is restricted stock or deferred stock units by delivering written or electronic notice of such election to the Chief Financial Officer before the director begins to serve on the board (or within 30 days after if it is not possible for the director to make his or her election prior to beginning service); provided, however, that if the Chief Financial Officer receives no such election, such grant shall be made in restricted stock. Such restricted stock or deferred stock units shall vest annually over three years (1/3 on the first anniversary of the grant, 1/3 on the second anniversary of the grant and 1/3 on the third anniversary of the grant). If a director ceases to serve as a director before such restricted shares or deferred stock units are fully vested due to death, or if there is a Change in Control prior to such vesting, then such restricted stock or deferred stock units shall become fully vested as of the date of such death or Change in Control, as applicable. If the director ceases to serve on the Board for any reason other than death, any restricted stock or deferred stock units granted under this Paragraph A that are not then vested shall be forfeited as of the date of such cessation of services.

**B. Annual Compensation**

**1. Annual Cash Compensation**

a. On the date of each annual meeting of the Company’s stockholders, each non-employee director who is continuing as a director following such annual meeting shall be paid an annual cash compensation amount as follows:

**Board Member Cash Compensation**

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Annual retainer for each director ("Annual Board Retainer"):	\$60,000
Board chair (if independent chair) additional compensation:	\$30,000
Lead independent director (if no independent chair) add. compensation:	\$30,000

#### Committee Member Cash Compensation

##### Committee chair cash compensation

- Audit and Finance \$25,000
- Compensation and Management Development \$20,000
- Nominating & Governance \$13,000
- Innovation, Technology & Pipeline \$13,000

##### Committee member (other than committee chair) cash compensation

- Audit and Finance \$12,500
- Compensation and Management Development \$10,000
- Nominating & Governance \$6,500
- Innovation, Technology & Pipeline \$6,500

provided, however, no Annual Board Retainer will be paid for the service period commencing on the date of the 2020 annual stockholders' meeting.

b. In lieu of cash, a director may elect to receive restricted stock having an equivalent dollar value based on the closing sale price of the Company's common stock on the date of grant. To be effective, notice of such election must be delivered to the Company's Chief Financial Officer in writing or electronically prior to the annual meeting at which such election shall first take effect, and such election shall be irrevocable and remain in effect until the later of (i) immediately prior to the second annual meeting following the date of delivery of such notice, or (ii) written or electronic notice from the director to the Chief Financial Officer terminating such election.

## 2. Annual Equity Compensation

a. On the date of each annual meeting of the Company's stockholders, each non-employee director who is continuing as a director following the date of such annual meeting shall be granted restricted stock or deferred stock units having a value of \$250,000 with the number of restricted stock or deferred stock units to be issued being determined, based on the closing sale price of the Company's common stock on the date of grant. A director shall elect whether such award is restricted stock or deferred stock units by delivering written or electronic notice of such election to the Chief Financial Officer prior to January 1 of the calendar year in which such award will be made (or the date of the annual meeting with respect to the first award made to a director under this Policy if it is not possible for the director to make his or her election prior to January 1 of the calendar year in which such award will be made); provided,



however, that if the Chief Financial Officer receives no such election, such grant shall be made in restricted stock.

b. On the date of each annual meeting of the Company's stockholders, the board chair (if independent), provided such individual will continue as board chair following the date of the annual meeting, shall be granted an additional annual award having a value equal to \$15,000 based on the closing sale price of the Company's common stock on the date of grant. The chair may elect to receive such award in either restricted stock or deferred stock units by delivering written or electronic notice of such election to the Chief Financial Officer prior to January 1 of the calendar year in which such award will be made (or the date of the annual meeting with respect to the first award made to the chair under this Policy if it is not possible for the chair to make his or her election prior to January 1 of the calendar year in which such award will be made); provided, however, that if the Chief Financial Officer receives no such election, such grant shall be made in restricted stock.

c. Grants of annual equity compensation described in Section 2 of this Policy shall not become vested until the first anniversary of the grant date (or, if earlier, the date of the next annual meeting of the Company's stockholders (the "Annual Award Vesting Date"). If a director ceases to serve as a director before the Annual Award Vesting Date due to the director's death, or if there is a Change in Control prior to the Annual Award Vesting Date, then the shares shall become fully vested as of the date of such death or Change in Control, as applicable. If a director ceases to serve as a director at any time for any reason other than death before the earlier of the Annual Award Vesting Date or a Change in Control, then the annual equity grant shall become vested pro rata (based on the number of days between the grant date and the date of cessation of services divided by (x) 365 days for awards made at an annual stockholders meeting or (y) the number of days from the date of commencement of services until the next annual stockholders meeting for an award made other than at an annual stockholders meeting), and to the extent the shares are not thereby vested they shall be forfeited as of the date of such cessation of services. These vesting rules will apply whether an award is payable in shares or deferred stock units.

### 3. Partial Year Compensation

If a director is elected or appointed to the board other than on the date of an annual meeting of stockholders, such director's annual cash and equity compensation for the period between the date of such election or appointment and the date of the next following annual meeting of the Company's stockholders shall be granted in accordance with subsection B of this Policy on the date of such meeting but adjusted pro rata to reflect the date of such director's election or appointment and the date of such meeting and, provided, further, that the number of restricted stock or deferred stock units to be issued pursuant to this paragraph shall be determined, based on the closing sale price of the Company's common stock on the date of such director's appointment, and shall be fully-vested on grant.

### 4. Per-Meeting Cash Compensation; Special Circumstances

a. Members of the Innovation, Technology & Pipeline Committee shall receive a cash payment, in addition to that described in Section B.1.a above, of \$5,000 per full-day, on-site, special working meeting. It is contemplated that the Innovation, Technology & Pipeline Committee will have two such meetings a year and that such meetings would take place at the Company's headquarters in Madison, Wisconsin, at the Mayo Clinic in Rochester, Minnesota, or at some other location as determined by the Committee. In lieu of cash for any such meeting, a member of the Innovation, Technology & Pipeline Committee may elect to receive restricted stock having an equivalent dollar value based on the closing sale price of the Company's common stock on the date of such meeting (which shall be the date of grant). To be effective, notice of such election must be delivered to the Company's Chief Financial Officer in writing or electronically prior to the date of such meeting.

b. Additional cash compensation shall be paid at the rate of \$1,500 per meeting attended, whether such meeting is attended in person or by telephone, in the following special circumstances:

i. To the extent the number of board meetings or committee meetings, calculated on a per-committee basis, exceeds 10 in a given year. For purposes of this section, a year commences with the Company's annual meeting of stockholders. Only the members of a given committee are eligible for the payments described in this section with respect to meetings of that committee. For the avoidance of doubt, no additional compensation would be payable under this section if a director attends 9 board meetings, 9 compensation committee meetings and 9 audit committee meetings; rather, additional compensation would only be triggered by the 11<sup>th</sup> meeting of the board or a given committee.

ii. To the extent the board creates a special committee, or designates the members of a standing committee to function with respect to a special purpose as members of a special committee. Only the members of the special committee are eligible for the payments described in this section with respect to meetings of such special committee.

#### C. Additional Terms

1. All equity and equity-based awards under this Policy (including stock options, restricted stock and deferred stock units) shall be made under and pursuant to the Company's 2010 Omnibus Long-Term Incentive Plan ("Plan"). Capitalized terms used herein and not otherwise defined shall have the meanings given to them in the Plan.

2. Deferred stock units are bookkeeping entries representing the equivalent of shares of the Company's common stock. Deferred stock units are paid in shares of the Company's common stock on the effective date of the director's retirement or removal from the board.

3. All vesting under the equity grants described in this Policy immediately ceases upon cessation of service as a director for any reason.

4. A director may not sell, transfer or otherwise dispose of any shares of restricted stock awarded under this Policy until they become vested; however, the director shall have the right to receive dividends with respect to such shares and to vote such shares prior to vesting.

5. The exercise price for all stock options under this Policy shall be the Company's closing stock price on the date of grant, or, if the date of grant is not a trading day, then the first trading day after the date of grant.

6. For purposes of determining the number of stock options in a given grant, stock options shall be valued using the Black-Scholes method.

7. The compensation described in this Policy is in addition to reimbursement of all out-of-pocket expenses incurred by directors in attending meetings of the board.

Approved April 22, 2020

AMENDMENT NO. 1 TO  
CONSTRUCTION LOAN AGREEMENT AND CONSTRUCTION NOTE

THIS AMENDMENT NO. 1 TO CONSTRUCTION LOAN AGREEMENT, effective as of June 30, 2020 (this "Amendment"), is by and between FIFTH THIRD BANK, NATIONAL ASSOCIATION, successor in interest to MB Financial Bank, N.A. (the "Bank"), and CG GROWTH, LLC, a Wisconsin limited liability company (the "Borrower"), amends and supplements (A) that certain Loan and Security Agreement dated as of December 15, 2017 between the Bank and the Borrower (as amended, revised, supplemented or restated from time to time, the "Credit Agreement") and (B) that certain Construction Note dated December 15, 2017 in the original principal amount of \$25,646,000 (the "Note") issued by the Borrower and payable to the order of the Bank.

RECITAL

The parties desire to amend and supplement the Credit Agreement and the Note as provided below.

AGREEMENTS

In consideration of the recital, the promises and agreements set forth in the Credit Agreement, as amended hereby, and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties agree as follows:

1. Definitions and References. Capitalized terms not otherwise defined herein have the meanings assigned in the Credit Agreement. All references to the Credit Agreement and/or the Note contained in the Collateral Documents and the other Loan Documents shall, upon fulfillment of the conditions specified in section 3 below, mean the Credit Agreement and the Note as amended by this Amendment.

2. Amendments to the Credit Agreement. The Credit Agreement is amended as follows:

(a) The following defined terms are added to Section 1 of the Credit Agreement to appear in the proper alphabetical order:

"Business Day" means (i) with respect to all notices and determinations in connection with the LIBOR Rate, any day (other than a Saturday or Sunday) on which commercial banks are open in London, England, New York, New York, and Cincinnati, Ohio for dealings in deposits in the London Interbank Market; and (ii) in all other cases, any day on which commercial banks in Cincinnati, Ohio are required by law to be open for business; *provided* that, notwithstanding anything to the contrary in this definition of "Business Day", at any time during which a Hedging Agreement with Lender is then in effect with respect to all or a

portion of the Revolving Loan, then the definitions of "Business Day" and "Banking Day", as applicable, pursuant to such Hedging Agreement shall govern with respect to all applicable notices and determinations in connection with such portion of the Revolving Loan subject to such Hedging Agreement. Periods of days referred to in this Agreement will be counted in calendar days unless Business Days are expressly prescribed.

"Fifth Third Prime Rate" means the floating rate of interest established from time to time by Fifth Third Bank at its principal office as its "Prime Rate" (the "Index"). The Index is not necessarily the lowest rate charged by Lender on its loans and is set by Lender in its sole discretion. If the Index becomes unavailable during the term of this loan, Lender may designate a substitute index after notifying Borrower; provided that such substitute index shall also be applied by Lender in a manner consistent with market practice to similarly situated counterparties with similar assets in similar facilities. Lender will promptly advise Borrower of any and every substitute index and will also advise Borrower of the current Index rate upon Borrower's request. The interest rate change will not occur more often than each day. NOTICE: Under no circumstances will the Index be less than 0.000% per annum or more than the maximum rate allowed by applicable law.

"LIBOR Rate Loan" means a Loan bearing interest at a rate determined by reference to LIBOR (as defined in the Note).

"Prime Rate Loan" means a Loan bearing interest at a rate determined by reference to the Fifth Third Prime Rate

(b) Section 2(e) is created to read as follows:

(e) LIBOR Replacement.

(A) Temporary Inability. In the event, prior to commencement of any Interest Period relating to a LIBOR Rate Loan, Lender shall reasonably determine that (a) deposits in U.S. dollars (in the applicable amounts) are not being offered to it in the London Interbank Offered Rate market for such Interest Period, (b) by reason of circumstances affecting the London Interbank Offered Rate Market adequate and reasonable methods do not exist for ascertaining LIBOR, (c) LIBOR as determined by Lender will not adequately and fairly reflect the cost to Lender of funding LIBOR Rate Loans for such Interest Period or (d) the making or funding of LIBOR Rate Loans has become demonstrably impracticable, then, provided Lender shall have made the same determination with regard to the availability of LIBOR based loans as to similarly situated counterparties with similar assets in similar facilities, Lender shall promptly provide notice of such determination to Borrower (which shall be conclusive and

binding on Borrower absent demonstrative error), and (x) any request for a conversion to or continuation of a LIBOR Rate Loan made after Lender provides such notice shall be automatically withdrawn and shall be deemed a request for a Prime Rate Loan, (y) each LIBOR Rate Loan will automatically, on the last day of the then current Interest Period relating thereto, become a Prime Rate Loan, and (z) the obligations of Lender to make LIBOR Rate Loans shall be suspended until Lender reasonably determines that the circumstances giving rise to such suspension no longer exist, in which event Lender shall so notify Borrower.

(B) Permanent Inability. (i) In the event Lender shall reasonably determine (which determination shall be deemed presumptively correct absent demonstrable error) that: (a) the circumstances set forth in Section 2(g) (A) have arisen and such circumstances are, in Lender's good faith reasonable business judgment, unlikely to be temporary; (b) a public statement or publication of information (A) by or on behalf of the administrator of LIBOR; or by the regulatory supervisor for the administrator of LIBOR, the U.S. Federal Reserve System, an insolvency official with jurisdiction over the administrator for LIBOR, a resolution authority with jurisdiction over the administrator for LIBOR or a court or an entity with similar insolvency or resolution authority over the administrator for LIBOR; in each case which states that such administrator has ceased or will cease to provide LIBOR, permanently or indefinitely, provided that, at the time of the statement or publication, there is no successor administrator that will continue to provide LIBOR, (B) by the administrator of LIBOR that it has invoked or will invoke, permanently or indefinitely, its insufficient submissions policy, or (C) by the regulatory supervisor for the administrator of LIBOR or any Governmental Authority having jurisdiction over Lender announcing that LIBOR is no longer representative or may no longer be used; (c) a LIBOR rate is not published by the administrator of LIBOR for five consecutive Business Days and such failure is not the result of a temporary moratorium, embargo or disruption declared by the administrator of LIBOR or by the regulatory supervisor for the administrator of LIBOR; or (d) a new index rate has become a widely-recognized replacement benchmark rate for LIBOR in newly originated loans denominated in Dollars in the U.S. market; then, Lender may, with the consent of the Borrower, which consent shall not unreasonably be withheld, conditioned or delayed, amend this Agreement as described below to replace LIBOR with an alternative replacement index and to modify the applicable margins (the new index and margin together, the "Benchmark Replacement"), in each case giving due consideration to any evolving or then existing convention for similar US dollar denominated credit facilities, or any selection, endorsement or recommendation by a relevant governmental body with respect to such facilities. Lender may also from time to time, in Lender's discretion,

make other related amendments (“Conforming Changes”), to permit the administration thereof by Lender in an administratively and operationally practicable manner and in a manner substantially consistent with market practice and similarly situated counterparties with similar assets in similar facilities. (ii) Lender and Borrower shall enter into an amendment to this Agreement to reflect the Benchmark Replacement and Conforming Changes. Lender and Borrower agree that any and all determinations with respect to the availability of LIBOR shall be made by Lender in an administratively and operationally practicable manner and applied by Lender to similarly situated counterparties with similar assets in similar facilities. (iii) For the avoidance of doubt, following the date when a determination is made pursuant to Section (B)(i), above, and until a Benchmark Replacement has been selected and implemented in accordance with the terms and conditions of Section (B)(i) and (ii), at Lender's election, all Loans shall accrue interest at, and the Interest Rate shall be, the Fifth Third Prime Rate.

(C) Notwithstanding anything to the contrary contained herein, if at any time the replacement index is less than zero, then at such times, such index shall be deemed to be zero for purposes of this Agreement; provided, however, even if the replacement index is greater than zero, if due to a negative margin the Benchmark Replacement would be zero, the Benchmark Replacement shall be deemed to be zero.

(D) In the event that circumstances similar to those set out in paragraph (B)(i)(a)-(d) occur in relation to an index selected to replace LIBOR (or another index previously selected pursuant to this provision) or if Lender reasonably determines a replacement index is administratively or operationally impracticable, not only as to the Loans hereunder but as to similarly situated counterparties with similar assets in similar facilities, the terms governing replacement of LIBOR set forth in paragraphs (B) and (C) shall govern replacement of the replacement index.

(c) Section 8(o) is amended to read as follows:

(o) [Reserved].

(d) Section 8(p) is amended in its entirety to read as follows:

(p) Minimum Liquidity. Borrower and/or ESC shall collectively, as of the end of each fiscal quarter, commencing with the fiscal quarter ending June 30, 2020, maintain cash, marketable securities, mutual funds, money market accounts, and managed investment accounts containing long positions in marketable stocks, rated corporate and municipal bonds, in each case which are owned (legally and beneficially) by Borrower and/or ESC free and clear of all liens, charges, and encumbrances, equal to or greater than \$250,000,000.

3. The defined term “LIBOR” contained in the Note is amended in its entirety to read as follows:

“LIBOR” means, for each 1-month period hereunder (each an “Interest Period”), the rate of interest (rounded upwards, if necessary, to the next 1/8 of 1% and adjusted for reserves if Lender is required to maintain reserves with respect to relevant advances) fixed by ICE Benchmark Administration Limited (or any successor thereto, or replacement thereof, approved by Lender, each an “Alternate LIBOR Source”) at approximately 11:00 a.m., London, England time (or the relevant time established by ICE Benchmark Administration Limited, an Alternate LIBOR Source, or Lender, as applicable), two Business Days prior to the commencement of such LIBOR Interest Period, relating to quotations for the one month London InterBank Offered Rates on U.S. Dollar deposits, as displayed by Bloomberg LP (or any successor thereto, or replacement thereof, as approved by Lender, each an “Approved Bloomberg Successor”), or, if no longer displayed by Bloomberg LP (or any Approved Bloomberg Successor), such rate as shall be determined in good faith by Lender from such sources as it shall determine to be comparable to Bloomberg LP (or any Approved Bloomberg Successor), all as determined by Lender in accordance with this Note and Lender’s loan systems and procedures periodically in effect. Notwithstanding anything to the contrary contained herein, in no event shall the LIBOR Rate be less than 0% as of any date (the “LIBOR Rate Minimum”); *provided* that, at any time during which a Hedging Agreement with Lender is then in effect with respect to all or a portion of the obligations, the LIBOR Rate Minimum shall be disregarded and no longer of any force and effect with respect to such portion of the Obligations subject to such Hedging Agreement. Each determination by Lender of LIBOR shall be binding and conclusive in the absence of manifest error. The Lender may unilaterally adjust the LIBOR for any reserve requirement and any subsequent costs arising from a change in government regulation, or may substitute an alternative rate that reasonably reflects the cost to Lender of making, funding and maintaining the principal amount of this Note in the event the LIBOR becomes unavailable or is no longer calculated or reported on a basis reasonably comparable to the basis on which it is calculated and reported on the date of this Note, provided, that, the Lender is making such adjustments or substitutions for all other similar borrowers and transactions and provided, further, that the substitute interest rate is equivalent to LIBOR. In the event any government authority subjects the Lender to any new or additional charge, fee, withholding or tax of any kind with respect to any loans hereunder or changes the method of taxation of such loans or changes the reserve or deposit requirements applicable to such loans, the Borrower shall pay to the Lender such additional amounts as will compensate the Lender for such costs or lost income resulting therefrom as reasonably determined by the Lender, provided, that, the Lender is making such adjustments or substitutions for all other similar borrowers and transactions

4. Effectiveness of the Amendment. This Amendment shall become effective upon its execution and delivery hereof by each of the parties hereto and receipt by the Bank of:

(a) A Certificate of Status issued by the Wisconsin Department of Financial Institutions evidencing that Borrower is in good standing in such jurisdiction;

(b) Insurance certificates with respect to the Borrower's property and liability insurance naming the Bank as additional insured as its interests appear with respect to the liability insurance and as lenders loss payee with respect to the property insurance; and

(c) An acknowledgment, consent and reaffirmation in the form heretofore agreed to by the parties, duly executed by ESC.

5. No Waiver. The Borrower agrees that nothing contained herein shall be construed by the Borrower as a waiver by the Bank of the Borrower's compliance with each representation, warranty or covenant contained in the Credit Agreement, as amended hereby, and that no waiver of any provision of the Credit Agreement by the Bank has occurred. The Borrower further agrees that nothing contained herein shall impair the right of the Bank to require strict performance by the Borrower of the Credit Agreement, as amended hereby, and the other Loan Documents.

6. Representations and Warranties. The Borrower represents and warrants to the Bank that:

(a) The execution, delivery and performance of this Amendment are within its limited liability company power and limited liability company authority, have been duly authorized by all proper limited liability company action on the part of the Borrower, are not in violation of any existing law, rule or regulation of any governmental agency or authority, any order or decision of any court, the organizational documents of the Borrower or the terms of any agreement, restriction or undertaking to which the Borrower is a party or by which it is bound, and does not require the approval or consent of the holders of equity interests of the Borrower, any governmental body, agency or authority or any other person or entity other than those consents and approvals in full force and effect, except as to all statements above, where any such violation or failure to obtain approvals or consents could not reasonably be expected to have a material adverse effect on the financial condition or business operations of Borrower;

(b) This Amendment has been duly executed and delivered by the Borrower and constitutes the legal, valid and binding obligation of the Borrower, enforceable in accordance with its terms, subject to applicable bankruptcy, insolvency, reorganization, moratorium or other laws affecting creditors' rights generally and subject to general principles of equity, regardless of whether considered in a proceeding in equity or at law; and

(c) The representations and warranties contained in the Credit Agreement are correct and complete as of the date of this Amendment (except to the extent such representation or warranty relates to a stated earlier date in which case it shall continue to be true and correct as of such date), and, no condition or event exists or act has occurred that, with or without the giving of notice or the passage of time, would constitute a Default or an Event of Default under the Credit Agreement.

7. [Intentionally Deleted].

8. Miscellaneous.

(a) Expenses and Fees. The Borrower agrees to pay on demand all actual out-of-pocket reasonable costs and expenses paid or incurred by the Bank in connection with the negotiation, preparation, execution and delivery of this Amendment, and all amendments, forms, certificates agreements, documents and instruments related hereto and thereto, including the actual fees and expenses of the Bank's outside counsel.

(b) Amendments and Waivers. This Amendment may not be changed or amended orally, and no waiver hereunder may be oral, but any change or amendment hereto or any waiver hereunder must be in writing and signed by the party or parties against whom such change, amendment or waiver is sought to be enforced.

(c) Headings. The headings in this Amendment are intended solely for convenience of reference and shall be given no effect in the construction or interpretation of this Amendment.

(d) Counterparts. This Amendment may be executed in one or more counterparts, each of which shall constitute an original, but all of which when taken together shall constitute but one and the same instrument. Delivery of an executed counterpart hereto by facsimile or by electronic transmission of a portable document file (PDF or similar file) shall be as effective as delivery of a manually executed counterpart signature page hereto.

9. Affirmation. Each party hereto affirms and acknowledges that the Credit Agreement and the Note, each as amended by this Amendment, remains in full force and effect in accordance with its terms, as amended hereby.

10. Successor In Interest. MB Financial Bank, N.A. merged with and into Fifth Third Bank, National Association (formerly known as Fifth Third Bank) (hereafter, "Fifth Third") on May 3, 2019 with Fifth Third as the surviving bank. As a result of such merger, Fifth Third became the successor in interest to all rights and obligations of MB Financial Bank, N.A. as Bank for all purposes hereof, the Credit Agreement and the other Loan Documents.

11. Conversion to National Bank. Fifth Third converted from an Ohio state-chartered bank to a national bank on November 14, 2019. This document is effective as of date identified herein but was executed and delivered by the parties after the conversion of Fifth Third to a national bank, known as Fifth Third Bank, National Association.

*[remainder of page intentionally left blank; signature page follows]*

IN WITNESS WHEREOF, the parties hereto have caused this Amendment No. 1 to Construction Loan Agreement to be duly executed by their respective authorized officers as of the day and year first above written.

BANK:

FIFTH THIRD BANK, NATIONAL ASSOCIATION, as successor in interest to MB Financial Bank, N.A.

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

BORROWER:

CG GROWTH, LLC, a Wisconsin limited liability company

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Kevin T. Conroy, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Exact Sciences Corporation (the “registrant”);
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 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 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: July 31, 2020

By: /s/ Kevin T. Conroy

Kevin T. Conroy  
President and Chief Executive Officer  
*(Principal Executive Officer)*

Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Jeffrey T. Elliott, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Exact Sciences Corporation (the “registrant”);
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 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 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: July 31, 2020

By: /s/ Jeffrey T. Elliott

Jeffrey T. Elliott  
Chief Financial Officer  
(Principal Financial and Accounting Officer)

**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 Quarterly Report of Exact Sciences Corporation (the "Company") on Form 10-Q for the quarter ended June 30, 2020 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), we, Kevin T. Conroy, President and Chief Executive Officer of the Company and Jeffrey T. Elliott, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to our knowledge, that:

- (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.

/s/ Kevin T. Conroy

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Kevin T. Conroy  
President and Chief Executive Officer

July 31, 2020

/s/ Jeffrey T. Elliott

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Jeffrey T. Elliott  
Chief Financial Officer

July 31, 2020