

---

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

---

**FORM 10-Q**

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

For the quarterly period ended September 30, 2018

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)

**441 Charmany Drive, Madison WI**  
(Address of principal executive offices)

**53719**  
(Zip Code)

**(608) 284-5700** (Registrant's telephone number, including area code)

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

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

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

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

As of October 29, 2018, the registrant had 122,900,430 shares of common stock outstanding.

---

---

EXACT SCIENCES CORPORATION

INDEX

	<u>Page Number</u>
<b><u>Part I - Financial Information</u></b>	
<b><u>Item 1. Financial Statements</u></b>	
<u>Condensed Consolidated Balance Sheets (unaudited) as of September 30, 2018 and December 31, 2017</u>	3
<u>Condensed Consolidated Statements of Operations (unaudited) for the Three and Nine Months Ended September 30, 2018 and 2017</u>	4
<u>Condensed Consolidated Statements of Comprehensive Loss (unaudited) for the Three and Nine Months Ended September 30, 2018 and 2017</u>	5
<u>Condensed Consolidated Statements of Cash Flows (unaudited) for the Nine Months Ended September 30, 2018 and 2017</u>	6
<u>Notes to Condensed Consolidated Financial Statements (unaudited)</u>	7
<b><u>Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u></b>	30
<b><u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u></b>	46
<b><u>Item 4. Controls and Procedures</u></b>	46
<b><u>Part II - Other Information</u></b>	
<b><u>Item 1. Legal Proceedings</u></b>	47
<b><u>Item 1A. Risk Factors</u></b>	47
<b><u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u></b>	47
<b><u>Item 3. Defaults Upon Senior Securities</u></b>	47
<b><u>Item 4. Mine Safety Disclosures</u></b>	48
<b><u>Item 5. Other Information</u></b>	48
<b><u>Item 6. Exhibits</u></b>	48
<u>Signatures</u>	49

Part I — Financial Information

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

	September 30, 2018	December 31, 2017
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 161,705	\$ 77,491
Marketable securities	1,023,512	347,224
Accounts receivable, net	41,916	26,419
Inventory, net	38,617	26,027
Prepaid expenses and other current assets	23,832	10,055
Total current assets	1,289,582	487,216
Long-term Assets:		
Property, plant and equipment, net	188,486	79,986
Intangibles, net	22,493	24,205
Other long-term assets, net	9,015	7,153
Total assets	<u>\$ 1,509,576</u>	<u>\$ 598,560</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current Liabilities:		
Accounts payable	\$ 32,738	\$ 16,135
Accrued liabilities	68,938	49,126
Accrued interest	1,901	—
Debt, current portion	—	182
Other short-term liabilities	3,158	2,681
Total current liabilities	106,735	68,124
Convertible notes, net	656,341	—
Long-term debt, less current portion	17,080	4,269
Other long-term liabilities	12,691	5,749
Total liabilities	792,847	78,142
Commitments and contingencies		
Stockholders' Equity:		
Preferred stock, \$0.01 par value Authorized—5,000,000 shares issued and outstanding—no shares at September 30, 2018 and December 31, 2017	—	—
Common stock, \$0.01 par value Authorized—200,000,000 shares issued and outstanding—122,889,854 and 120,497,426 shares at September 30, 2018 and December 31, 2017	1,229	1,205
Additional paid-in capital	1,698,695	1,380,577
Accumulated other comprehensive loss	(1,406)	(750)
Accumulated deficit	(981,789)	(860,614)
Total stockholders' equity	716,729	520,418
Total liabilities and stockholders' equity	<u>\$ 1,509,576</u>	<u>\$ 598,560</u>

*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 September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Laboratory service revenue	\$ 118,291	\$ 72,574	\$ 311,481	\$ 178,583
Cost of sales	30,020	20,729	79,822	55,701
Gross margin	88,271	51,845	231,659	122,882
Operating expenses:				
Research and development	17,631	11,725	47,278	29,464
General and administrative	46,729	30,763	121,861	75,442
Sales and marketing	64,836	37,768	172,675	113,297
Total operating expenses	129,196	80,256	341,814	218,203
Loss from operations	(40,925)	(28,411)	(110,155)	(95,321)
Other income (expense)				
Investment income	6,292	1,334	14,882	2,612
Interest expense	(10,704)	(51)	(25,817)	(155)
Total other income (expense)	(4,412)	1,283	(10,935)	2,457
Net loss before tax	(45,337)	(27,128)	(121,090)	(92,864)
Income tax benefit (expense)	(27)	231	(85)	231
Net loss	\$ (45,364)	\$ (26,897)	\$ (121,175)	\$ (92,633)
Net loss per share—basic and diluted	\$ (0.37)	\$ (0.23)	\$ (0.99)	\$ (0.81)
Weighted average common shares outstanding—basic and diluted	122,671	119,215	121,946	114,246

*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 September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net loss	\$ (45,364)	\$ (26,897)	\$ (121,175)	\$ (92,633)
Other comprehensive loss, net of tax:				
Unrealized gain (loss) on available-for-sale investments	462	49	(668)	7
Foreign currency translation gain	10	16	12	97
Comprehensive loss	<u>\$ (44,892)</u>	<u>\$ (26,832)</u>	<u>\$ (121,831)</u>	<u>\$ (92,529)</u>

*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, except share data - unaudited)**

	<u>Nine Months Ended September 30,</u>	
	<u>2018</u>	<u>2017</u>
<b>Cash flows from operating activities:</b>		
Net loss	\$ (121,175)	\$ (92,633)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization of property and equipment	14,349	10,507
Loss on disposal of property and equipment	853	301
Deferred tax benefit	—	(231)
Stock-based compensation	44,554	23,002
Amortization of debt discount	18,559	—
Amortization of debt issuance costs	1,597	—
Amortization of other liabilities	(1,809)	(1,199)
Amortization of deferred financing costs	86	40
Amortization of premium on short-term investments	(2,581)	56
Amortization of intangible assets	1,847	645
Changes in assets and liabilities, net of effects of acquisition:		
Accrued interest	1,901	—
Accounts receivable, net	(15,497)	(15,663)
Inventory, net	(12,590)	(11,231)
Prepaid expenses and other current assets	(13,777)	(1,391)
Accounts payable	16,603	8,022
Accrued liabilities	(1,600)	9,306
Other short-term liabilities	87	(29)
Lease incentive obligation	504	(462)
Net cash used in operating activities	<u>(68,089)</u>	<u>(70,960)</u>
<b>Cash flows from investing activities:</b>		
Purchases of marketable securities	(1,081,662)	(345,039)
Maturities of marketable securities	407,287	195,485
Purchases of property and equipment	(97,987)	(24,442)
Business acquisition, net of cash acquired	—	(2,996)
Purchases of intangible assets	—	(8,442)
Internally developed software	(135)	(25)
Net cash used in investing activities	<u>(772,497)</u>	<u>(185,459)</u>
<b>Cash flows from financing activities:</b>		
Proceeds from issuance of convertible notes, net	896,431	—
Proceeds from financing obligation	6,750	—
Proceeds from exercise of common stock options	6,376	3,350
Proceeds from sale of common stock, net of issuance costs	—	253,389
Proceeds in connection with the Company's employee stock purchase plan	2,663	1,629
Payments of deferred financing costs	(25)	—
Proceeds from construction loan	17,271	—
Payments on mortgage payable	(4,678)	(130)
Net cash provided by financing activities	<u>924,788</u>	<u>258,238</u>
Effects of exchange rate changes on cash and cash equivalents	12	97
Net increase in cash and cash equivalents	84,214	1,916
Cash and cash equivalents, beginning of period	77,491	48,921
Cash and cash equivalents, end of period	<u>\$ 161,705</u>	<u>\$ 50,837</u>
<b>Supplemental disclosure of non-cash investing and financing activities:</b>		
Property and equipment acquired but not paid	<u>\$ 25,714</u>	<u>\$ 3,930</u>
Unrealized gain (loss) on available-for-sale investments	<u>\$ (668)</u>	<u>\$ 7</u>
Issuance of 86,882 and 158,717 shares of common stock to fund the Company's 401(k) matching contribution for 2017 and 2016, respectively	<u>\$ 4,303</u>	<u>\$ 3,008</u>
Interest paid	<u>\$ 4,638</u>	<u>\$ 151</u>

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

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

**(1) ORGANIZATION AND BASIS OF PRESENTATION**

**Organization**

Exact Sciences Corporation (“Exact” or the “Company”) was incorporated in February 1995. Exact is a molecular diagnostics company currently focused on the early detection and prevention of some of the deadliest forms of cancer. The Company has developed an accurate, non-invasive, patient-friendly screening test called Cologuard® for the early detection of colorectal cancer and pre-cancer, and is currently working on the development of tests for other types of cancer, with the goal of becoming a leader in cancer diagnostics.

**Basis of Presentation**

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, 2017 included in the Company’s Annual Report on Form 10-K (the “2017 Form 10-K”). 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, all adjustments (consisting only of adjustments of a normal and recurring nature) considered necessary for a fair presentation of the results of operations have been included. 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 2017 Form 10-K. Management has evaluated subsequent events for disclosure or recognition in the accompanying financial statements up to the filing of this report.

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

**Principles of Consolidation**

The accompanying condensed consolidated financial statements include the accounts of the Company’s wholly owned subsidiaries and variable interest entities. All significant intercompany transactions and balances have been eliminated in consolidation.

References to “Exact”, “we”, “us”, “our”, or the “Company” refer to Exact Sciences Corporation and its wholly owned subsidiaries.

**Use of Estimates**

The preparation of 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. Actual results could differ from those estimates.

**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. Marketable equity securities and debt securities not classified as held-to-maturity are classified as available-for-sale. Available-for-sale securities are carried at fair value, with the unrealized gains and losses, net of tax, reported in other comprehensive loss. 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. Realized gains and losses and declines in value judged to be other-than-temporary on available-for-sale securities are included in investment income. 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 investment income.

At September 30, 2018 and December 31, 2017, the Company's investments were comprised of fixed income investments, and all were deemed available-for-sale. The objectives of the Company's investment strategy are to provide liquidity and safety of principal while striving to achieve the highest rate of return consistent with these two objectives. 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. All of the Company's investments are considered current. There were no realized losses for the nine months ended September 30, 2018 and 2017. Realized gains were \$0.2 million and \$17,000 for the nine months ended September 30, 2018 and 2017, respectively.

The Company periodically reviews its investments in unrealized loss positions for other-than-temporary impairments. This evaluation includes, but is not limited to, significant quantitative and qualitative assessments and estimates regarding credit ratings, collateralized support, the length of time and significance of a security's loss position, the Company's intent not to sell the security, and whether it is more likely than not that the Company will have to sell the security before recovery of its cost basis. For the nine months ended September 30, 2018, no investments were identified with other-than-temporary declines in value.

Available-for-sale securities at September 30, 2018 consisted of the following:

(In thousands)	September 30, 2018			
	Amortized Cost	Gains in Accumulated Other Comprehensive Income (Loss)	Losses in Accumulated Other Comprehensive Income (Loss)	Estimated Fair Value
Corporate bonds	\$ 415,828	104	(473)	\$ 415,459
Asset backed securities	288,286	3	(547)	287,742
U.S. government agency securities	265,563	—	(432)	265,131
Commercial paper	12,081	—	(5)	12,076
Certificates of deposit	43,111	15	(22)	43,104
Total available-for-sale securities	<u>\$ 1,024,869</u>	<u>\$ 122</u>	<u>\$ (1,479)</u>	<u>\$ 1,023,512</u>

Available-for-sale securities at December 31, 2017 consisted of the following:

<b>(In thousands)</b>	<b>December 31, 2017</b>			
	<b>Amortized Cost</b>	<b>Gains in Accumulated Other Comprehensive Income (Loss)</b>	<b>Losses in Accumulated Other Comprehensive Income (Loss)</b>	<b>Estimated Fair Value</b>
Corporate bonds	\$ 181,639	\$ 10	\$ (344)	\$ 181,305
Asset backed securities	94,700	—	(185)	94,515
U.S. government agency securities	54,974	—	(162)	54,812
Commercial paper	9,953	—	(7)	9,946
Certificates of deposit	6,647	1	(2)	6,646
Total available-for-sale securities	<u>\$ 347,913</u>	<u>\$ 11</u>	<u>\$ (700)</u>	<u>\$ 347,224</u>

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

The amounts recognized in accumulated other comprehensive income (loss) (“AOCI”) for the nine months ended September 30, 2018 were as follows:

<b>(In thousands)</b>	<b>Cumulative Translation Adjustment</b>	<b>Unrealized Gain (Loss) on Securities</b>	<b>Accumulated Other Comprehensive Income (Loss)</b>
Balance at December 31, 2017	\$ (61)	\$ (689)	\$ (750)
Other comprehensive income (loss) before reclassifications	12	(883)	(871)
Amounts reclassified from accumulated other comprehensive loss	—	215	215
Net current period change in accumulated other comprehensive loss	12	(668)	(656)
Balance at September 30, 2018	<u>\$ (49)</u>	<u>\$ (1,357)</u>	<u>\$ (1,406)</u>

The amounts recognized in AOCI for the nine months ended September 30, 2017 were as follows:

<b>(In thousands)</b>	<b>Cumulative Translation Adjustment</b>	<b>Unrealized Gain (Loss) on Securities</b>	<b>Accumulated Other Comprehensive Income (Loss)</b>
Balance at December 31, 2016	\$ (204)	\$ (214)	\$ (418)
Other comprehensive loss before reclassifications	97	(3)	94
Amounts reclassified from accumulated other comprehensive loss	—	10	10
Net current period change in accumulated other comprehensive loss	97	7	104
Balance at September 30, 2017	<u>\$ (107)</u>	<u>\$ (207)</u>	<u>\$ (314)</u>

Amounts reclassified from AOCI for the nine months ended September 30, 2018 and 2017 were as follows:

<b>Details about AOCI Components (In thousands)</b>	<b>Affected Line Item in the Statement of Operations</b>	<b>Nine Months Ended September 30,</b>	
		<b>2018</b>	<b>2017</b>
Change in value of available-for-sale investments			
Sales and maturities of available-for-sale investments	Investment income	\$ 215	\$ 10
Total reclassifications		<u>\$ 215</u>	<u>\$ 10</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. Maintenance and repairs are expensed when incurred; additions and improvements are capitalized. Property and equipment consisted of the following as of September 30, 2018 and December 31, 2017:

(In thousands)	Estimated Useful Life	September 30, 2018	December 31, 2017
<b>Property, plant and equipment</b>			
Land	(1)	\$ 4,466	\$ 4,466
Leasehold and building improvements	(2)	35,264	17,629
Land improvements	15 years	1,530	1,419
Buildings	30 - 40 years	9,886	7,928
Computer equipment and computer software	3 years	35,355	30,148
Laboratory equipment	3 - 5 years	34,720	23,296
Furniture and fixtures	3 years	7,608	4,531
Assets under construction	(3)	110,928	28,655
Property, plant and equipment, at cost		239,757	118,072
Accumulated depreciation		(51,271)	(38,086)
Property, plant and equipment, net		<u>\$ 188,486</u>	<u>\$ 79,986</u>

- (1) Not depreciated.
- (2) Lesser of the remaining lease term, building life, or useful life.
- (3) Not depreciated until placed into service.

At September 30, 2018, the Company had \$110.9 million of assets under construction which consisted of \$28.1 million related to laboratory equipment, \$79.9 million related to leasehold and building improvements, and \$2.9 million related to computer equipment and computer software projects. Depreciation will begin on these assets once they are placed into service. The Company expects to incur an additional \$7.0 million to complete the laboratory equipment, \$188.7 million to complete the building projects, and \$2.8 million to complete the computer equipment and computer software projects. These projects are expected to be completed throughout 2018, 2019 and 2020. The Company assesses its long-lived assets, consisting primarily of property and equipment, for impairment when material events and changes in circumstances indicate that the carrying value may not be recoverable. There were no impairment losses for the periods ended September 30, 2018 and December 31, 2017.

## Software Capitalization Policy

Software development costs related to internal use software are incurred in three stages of development: 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 method over the estimated useful life of the software.

**Intangible Assets**

*Intangible Assets*

Intangible assets consisted of the following:

<b>(In thousands)</b>	<b>September 30, 2018</b>	<b>December 31, 2017</b>
<b>Finite-lived intangible assets</b>		
Finite-lived intangible assets	\$ 23,856	\$ 23,731
Less: Accumulated amortization	(3,342)	(1,505)
Finite-lived intangible assets, net	20,514	22,226
<b>Indefinite-lived intangible assets</b>		
Goodwill	1,979	1,979
<b>Net carrying value</b>	<b>\$ 22,493</b>	<b>\$ 24,205</b>

*Finite-Lived Intangible Assets*

The following table summarizes the net-book-value and estimated remaining life of the Company's finite-lived intangible assets as of September 30, 2018:

<b>(In thousands)</b>	<b>Net Balance at September 30, 2018</b>	<b>Weighted Average Remaining Life (Years)</b>
Licensed intellectual property and patents	\$ 19,544	9.8
Developed technology	970	6.2
<b>Total</b>	<b>\$ 20,514</b>	

The table below represents estimated future amortization expense associated with the Company's finite-lived intangible assets as of September 30, 2018:

<b>(In thousands)</b>	
2018	\$ 618
2019	2,472
2020	2,467
2021	2,391
2022	2,370
Thereafter	10,196
	<b>\$ 20,514</b>

The Company reviews long-lived assets and certain identifiable intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be 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 periods ended September 30, 2018 and December 31, 2017.

Patent costs, which have historically consisted of related legal fees, are capitalized as incurred, only if the Company determines that there is some probable future economic benefit to be 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. Other than the transactions discussed below, the Company determined that all patent costs incurred during the nine months ended September 30, 2018 and 2017

should be expensed and not capitalized as the future economic benefit to be derived from the transactions cannot be determined.

Under a technology license and royalty agreement entered into with MDxHealth (“MDx”), dated July 26, 2010 (as subsequently amended, the “MDx License Agreement”), the Company was required to pay MDx milestone-based royalties on sales of products or services covered by the licensed intellectual property. Once the achievement of a milestone occurred or was considered probable, an intangible asset and corresponding liability was reported in other long-term assets and accrued liabilities, respectively. The liability was relieved once the milestone was achieved and payment made. The intangible asset is being amortized over the estimated ten-year useful life of the licensed intellectual property through 2024, and such amortization is reported in cost of sales. Payment for all remaining milestones under the MDx License Agreement was made as part of the Royalty Buy-Out agreement outlined below.

Effective April 25, 2017, the Company and MDx entered into a Royalty Buy-Out Agreement (“Royalty Buy-Out Agreement”), which terminated the MDx License Agreement. Pursuant to the Royalty Buy-Out Agreement, the Company paid MDx a one-time fee of \$8.0 million in exchange for an assignment of certain patents covered by the MDx License Agreement and the elimination of all ongoing royalties and other payments by the Company to MDx under the MDx License Agreement. Also included in the Royalty Buy-Out Agreement is a mutual release of liabilities, which includes all amounts previously accrued under the MDx License Agreement. Concurrently with entering into the Royalty Buy-Out Agreement, the Company entered into a Patent Purchase Agreement (“Patent Purchase Agreement”) with MDx under which it paid MDx an additional \$7.0 million in exchange for the assignment of certain other patent rights that were not covered by the MDx License Agreement. The total \$15.0 million paid by the Company pursuant to the Royalty Buy-Out Agreement and Patent Purchase Agreement, net of liabilities relieved of \$6.6 million, was recorded as an intangible asset and is being amortized over the estimated useful life of the licensed intellectual property through 2024, and such amortization is reported in cost of sales. The \$6.6 million of liabilities relieved were related to historical milestones and accrued royalties under the MDx License Agreement.

As of September 30, 2018, and December 31, 2017, an intangible asset of \$8.0 million and \$9.0 million, respectively, related to historical milestone payments made under the MDx License Agreement and intangible assets acquired as part of the Royalty Buy-Out Agreement and Patent Purchase Agreement is reported in intangible assets in the Company’s condensed consolidated balance sheets. Amortization expense was \$0.3 million and \$0.3 million for the three months ended September 30, 2018 and 2017, respectively. Amortization expense was \$1.0 million and \$0.6 million for the nine months ended September 30, 2018 and 2017, respectively.

On December 15, 2017, the Company entered into an asset purchase agreement (the “Armune Purchase Agreement”) with Armune BioScience, Inc. (“Armune”), pursuant to which the Company acquired intellectual property and certain other assets underlying Armune’s APIFINY®, APIFINY® PRO and APIFINY® ACTIVE SURVEILLANCE prostate cancer diagnostic tests. The Company has utilized the Armune assets in its research and development program. The total consideration was comprised of an up-front cash payment of \$12.0 million and \$17.5 million in contingent payment obligations that will become payable upon the Company’s achievement of development and commercial milestones using the acquired intellectual property. The ability to meet these events is subject to many risks and is therefore uncertain. The Company will not record the contingent consideration until it is probable that the milestones will be met. There is no other consideration due to Armune beyond the milestone payments and the Company is not subject to future royalty obligations should a product be developed and commercialized. In connection with the Armune Purchase Agreement, Armune terminated a license agreement pursuant to which it licensed certain patent rights and know-how from the Regents of the University of Michigan (“University of Michigan”), and the Company entered into a license agreement with the University of Michigan with respect to such patent rights and know-how, as well as certain additional intellectual property rights. Pursuant to the Company’s agreement with the University of Michigan, it is required to pay the University of Michigan a low single-digit royalty on its net sales of products using the licensed intellectual property.

The Company accounted for the transaction as an asset acquisition under GAAP. The asset is comprised of a portfolio of biomarkers and related technology and know-how, which is a group of complementary assets concentrated in a single identifiable asset. The transaction costs directly related to the asset acquisition were added to the asset in accordance with GAAP. As such, the collective asset value from the acquisition resulted in an intangible asset of \$12.2 million. The intellectual property asset, which includes related transaction costs, is being amortized on a straight-line

basis over the period the Company expects to be benefited, which is in line with the legal life of the patents acquired. The Company capitalized these costs as there is a reasonable expectation that the assets acquired will be used in an alternative manner in the future, that is not contingent on future development subsequent to acquisition, and the Company anticipates there to be economic benefit from these alternative uses. For the three and nine months ended September 30, 2018, the Company recorded amortization expense of \$0.2 million and \$0.7 million, respectively. At September 30, 2018 and December 31, 2017, the net balance of \$11.5 million and \$12.2 million, respectively, is reported in net intangible assets in the Company's condensed consolidated balance sheets.

During the third quarter of 2017, the Company acquired all of the equity interests of Sampleminded, Inc. ("Sampleminded"). As a result of the acquisition, the Company recorded an intangible asset of \$1.0 million, which was comprised of developed technology acquired of \$0.9 million, customer relationships of \$0.1 million, and non-compete agreements of \$32,000. The intangible assets acquired are being amortized over the remaining useful life, which was determined to be eight years for developed technology acquired, three years for customer relationships, and five years for non-compete agreements. For the three months ended September 30, 2018 and 2017, the Company recorded amortization expense of \$36,000 and \$20,000, respectively. For the nine months ended September 30, 2018, and 2017 the Company recorded amortization expense of \$0.1 million and \$20,000, respectively. At September 30, 2018 and December 31, 2017 the net balance of \$0.8 million and \$0.9 million, respectively, is reported in net intangible assets in the Company's condensed consolidated balance sheets.

#### *Goodwill*

During the third quarter of 2017, the Company recognized goodwill of \$2.0 million from the acquisition of Sampleminded. Goodwill is reported in net intangible assets in the Company's condensed consolidated balance sheets. The Company evaluates goodwill impairment on an annual basis, or more frequently should an event or change in circumstance occur that indicate the carrying amount is in excess of the fair value. There were no impairment losses for the periods ended September 30, 2018 and December 31, 2017.

#### **Investment in Privately-Held Company**

On November 30, 2017, the Company made a \$3.0 million cash investment (the "2017 Biomatrixa Investment") in Biomatrixa, Inc. ("Biomatrixa"), then a privately held company specializing in the collection and preservation of biological materials. The Company made the 2017 Biomatrixa Investment in connection with entering into an agreement for Biomatrixa to supply certain products to the Company. In the 2017 Biomatrixa Investment, the Company acquired shares of Biomatrixa's Series E Preferred Stock representing 10 percent, of Biomatrixa's then-outstanding shares of capital stock on an as-converted basis.

The 2017 Biomatrixa Investment did not constitute a variable interest entity, as the Company did not have control over the supplier's business. Additionally, as the ownership percentage was below 20 percent, the equity method was not used to account for the investment. There were no quoted prices or observable pricing inputs available for Biomatrixa's stock. Therefore, the Company has accounted for the 2017 Biomatrixa Investment at cost, less any impairments, plus or minus changes resulting from observable price changes in orderly transactions for an identical or similar investment. The carrying value of the 2017 Biomatrixa Investment was \$3.0 million as of September 30, 2018, and is reported in other long-term assets in the Company's condensed consolidated balance sheets. There were no adjustments to the carrying value, upward or downward, during the three and nine months ended September 30, 2018.

On October 2, 2018, the Company completed an acquisition of all of Biomatrixa's outstanding equity interests for an aggregate purchase price of \$20.0 million net of cash received, debt repaid and certain other adjustments. The transaction is subject to a post-closing working capital adjustment, which the Company will fund with cash on hand (to the extent any additional amounts are payable by the Company) (the "2018 Biomatrixa Acquisition"). Contingent consideration for an additional \$20.0 million could be earned based upon certain revenue milestones being met. The purchase price was also reduced by the value attributable to the 2017 Biomatrixa Investment discussed above. The purchase price for the 2018 Biomatrixa Acquisition will be preliminarily allocated to the underlying assets acquired and liabilities assumed based upon their estimated fair values at the date of acquisition and is subject to change as the Company completes its analysis of their fair values during the measurement period, not to exceed one year as permitted

under GAAP. Due to the transaction closing subsequent to September 30, 2018, the Company will complete the preliminary purchase price allocation and include the applicable disclosures in its 2018 Annual Report on Form 10-K.

### 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 are the same because all outstanding common stock equivalents have been excluded, as they are anti-dilutive due to the Company's losses.

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)	September 30,	
	2018	2017
Shares issuable upon exercise of stock options	2,856	4,042
Shares issuable upon the release of restricted stock awards	6,280	6,164
Shares issuable upon conversion of convertible notes	12,044	—
	<u>21,180</u>	<u>10,206</u>

### Revenue Recognition

The Company's laboratory service revenues are generated from laboratory services using its Cologuard test, and the service is completed upon delivery of a patient's test result to the ordering physician. The Company accounts for revenue in accordance with Accounting Standards Codification ("ASC") Topic 606, *Revenue from Contracts with Customers* ("ASC 606"), which it adopted on January 1, 2018, using the modified retrospective method, which it elected to apply to all contracts. Application of the modified retrospective method did not impact amounts previously reported by the Company, nor did it require a cumulative effect adjustment upon adoption, as the Company's method of recognizing revenue under ASC 606 was analogous to the method utilized immediately prior to adoption. Accordingly, there is no need for the Company to disclose the amount by which each financial statement line item was affected as a result of applying the new standard and an explanation of significant changes.

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 revenue in accordance with that core principle, and key aspects considered by the Company include the following:

#### *Contracts*

The Company's customer is the patient. However, the Company does not enter into a formal reimbursement contract with a patient, as formal reimbursement contracts, including national coverage determination for Cologuard, are established with payers. Accordingly, the Company establishes a contract with a patient in accordance with other customary business practices.

- Approval of a contract is established via the order submitted by the patient's physician and the return of a sample by the patient.
- The Company is obligated to perform its laboratory services upon receipt of a sample from a patient, 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, unless the patient is a self-pay patient, whereby the Company requires payment from the patient prior to the Company shipping a collection kit to the patient.

- On ce the Company delivers a patient’s test result to the ordering physician the contract with a patient has commercial substance, as the Company is legally able to collect payment and bill an insurer and/or patient, depending on payer contract status or patient insurance benefit status.
- The Company’s consideration is deemed to be variable, 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. Our contracts have a single performance obligation, which is satisfied upon rendering of services, which culminates in the delivery of a patient’s Cologuard test result to the ordering physician. The duration of time between sample receipt and delivery of a valid test result to the ordering physician is typically less than two weeks. Accordingly, the Company elects the practical expedient and therefore, does not disclose the value of unsatisfied performance obligations.

*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 is deemed to be variable, though the variability is not explicitly stated in any contract. Rather, the implied variability is due to several factors, such as the amount of contractual adjustments, any patient co-payments, deductibles or compliance 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 \$2.4 million and \$14.2 million for the three and nine months ended September 30, 2018.

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 consideration than it originally estimated for a contract with a patient, it will account for the change as an increase in the estimate of the transaction price (i.e., an upward revenue adjustment) in the period identified. Similarly, if the Company subsequently determines that the amount it expects to collect from a patient is less than it originally estimated, it will generally account for the change as a decrease in the estimate of the transaction price (i.e., a downward revenue adjustment), provided that such downward adjustment does not result in a significant reversal of cumulative revenue recognized.

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 delivery of a patient’s Cologuard test result to the ordering physician, with recognition, generally occurring at the date of cash receipt. Since the first quarter of 2017, the Company has determined that its historical experience has sufficient predictive value, such that there are no longer any contracts for which no revenue is recognized upon delivery of a Cologuard test result to an ordering physician. Of the revenue recognized in the twelve months ended December 31, 2017, approximately \$4.3 million relates to the one-time impact of certain payers meeting the Company’s revenue recognition criteria for accrual-

[Table of Contents](#)

basis revenue recognition beginning with the period ended March 31, 2017. Approximately \$1.0 million of this one-time impact relates to tests completed in the prior year and for which the Company's accrual revenue recognition criteria were not met until 2017.

*Allocate transaction price*

The entire transaction price is allocated to the single performance obligation contained in a contract with a patient.

*Point in time recognition*

The Company's single performance obligation is satisfied at a point in time, and that point in time is defined as the date a patient's successful test result is delivered to the patient's ordering physician. The Company considers this date to be the time at which the patient obtains control of the promised Cologuard test service.

*Disaggregation of Revenue*

The following tables present our revenues disaggregated by revenue source for the three and nine months ended September 30, 2018 and 2017, respectively:

<b>(In thousands)</b>	<b>Three Months Ended September 30,</b>	
	<b>2018</b>	<b>2017</b>
Medicare Parts B & C	\$ 65,870	\$ 47,041
Commercial	48,624	22,838
Other	3,797	2,695
Total	<u>\$ 118,291</u>	<u>\$ 72,574</u>

<b>(In thousands)</b>	<b>Nine Months Ended September 30,</b>	
	<b>2018</b>	<b>2017</b>
Medicare Parts B & C	\$ 178,052	\$ 119,746
Commercial	123,045	52,686
Other	10,384	6,151
Total	<u>\$ 311,481</u>	<u>\$ 178,583</u>

*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 delivery of a patient's test result to the ordering physician, resulting in an account receivable. However, the Company sometimes receives advance payment from a patient, particularly a self-pay patient, before a Cologuard test result is completed, resulting in deferred revenue. The deferred revenue balance is relieved upon delivery of the applicable patient's test result to the ordering physician. Changes in accounts receivable and deferred revenue were not materially impacted by any other factors.

Deferred revenue balances are reported in other short-term liabilities in the Company's condensed consolidated balance sheets and were \$0.5 million and \$0.2 million as of September 30, 2018 and December 31, 2017, respectively.

Revenue recognized for the three months ended September 30, 2018 and 2017, which was included in the deferred revenue balance at the beginning of each period was \$0.1 million and \$38,000, respectively. Revenue recognized for the nine months ended September 30, 2018 and 2017, which was included in the deferred revenue balance at the beginning of each period was \$0.1 million and \$44,000, 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.

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. compliance reminder letters). These costs are expensed as incurred and recorded within general and administrative expenses in the Company's condensed consolidated statements of operations.

### **Inventory**

Inventory is stated at the lower of cost or market value (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 or has a cost basis in excess of its estimated net realizable value, and records a charge to cost of sales for such inventory, as appropriate. In addition, the materials used in performing Cologuard tests are subject to strict quality control and monitoring which the Company performs throughout the manufacturing process. If certain batches or units of product no longer meet quality specifications or become obsolete due to expiration, the Company records a charge to cost of sales to write down such unmarketable inventory to its estimated net realizable value.

Direct and indirect manufacturing costs incurred during process validation and 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>September 30, 2018</b>	<b>December 31, 2017</b>
Raw materials	\$ 12,214	\$ 10,344
Semi-finished and finished goods	26,403	15,683
<b>Total inventory</b>	<b>\$ 38,617</b>	<b>\$ 26,027</b>

### **Foreign Currency Translation**

For the Company's international subsidiaries, the local currency is the functional currency. Assets and liabilities of these subsidiaries are translated into United States dollars at the period-end exchange rate or historical rates, as appropriate. Condensed consolidated statements of operations are translated at average exchange rates for the period. The cumulative translation adjustments resulting from changes in exchange rates are included in the Company's condensed consolidated balance sheet as a component of accumulated other comprehensive loss in total Exact Sciences Corporation's stockholders' equity. Transaction gains and losses are included in the Company's condensed consolidated statement of operations.

### **Reclassifications**

Certain prior period amounts have been reclassified to conform to the current period presentation in the Company's condensed consolidated financial statements and accompanying notes to the Company's condensed consolidated financial statements.

### **(3) MAYO LICENSE AGREEMENT**

#### **Overview**

As more fully described in the 2017 Form 10-K, in June 2009 the Company entered into a patent license agreement with MAYO Foundation for Medical Education and Research (“MAYO”). The Company’s license agreement with MAYO was amended and restated in February 2015 and further amended in January 2016 and October 2017. 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. As expanded by the January 2016 amendment to the license agreement, the scope of the license includes any screening, surveillance or diagnostic tests or tools for use in connection with any type of cancers, pre-cancers, diseases or conditions.

Pursuant to the Company’s license agreement with MAYO, the Company is required to pay MAYO a low-single-digit royalty on the Company’s net sales of products using the licensed MAYO intellectual property, with minimum annual royalty fees of \$25,000 each year through 2033, the year the last patent expires. The January 2016 amendment to the MAYO license agreement established various low-single-digit royalty rates on net sales of current and future products and clarified how net sales will be calculated. The October 2017 amendment further modified royalty rates. As part of these amendments, the royalty rate on the Company’s net sales of Cologuard increased and, if in the future, improvements are made to the Cologuard product, the royalty rate may further increase, but would remain a low-single-digit percentage of net sales.

In addition to royalties, the Company is required to pay MAYO cash of \$0.2 million, \$0.8 million and \$2.0 million upon each product using the licensed MAYO intellectual property reaching \$5.0 million, \$20.0 million and \$50.0 million in cumulative net sales, respectively.

As part of the February 2015 amendment and restatement of the license agreement, the Company agreed to pay MAYO an additional \$5.0 million, payable in five annual installments, through 2019. The Company paid MAYO the annual installment of \$1.0 million in the first quarter of each of 2015, 2016 and 2018. The Company paid MAYO the 2017 installment in December 2016. The Company records the \$1.0 million installments to prepaid expenses and other current assets and amortizes each installment over a twelve-month period commencing on February 1 of each year. For the three and nine months ended September 30, 2018 and 2017 the Company has recorded \$0.3 million and \$0.7 million in amortization of the installments, respectively.

In addition, the Company is paying MAYO for research and development efforts. As part of the Company’s research collaboration with MAYO, the Company incurred charges of \$0.7 million and \$3.4 million for the three and nine months ended September 30, 2018. The Company made payments of \$0.9 million and \$3.5 million for the three and nine months ended September 30, 2018. The Company recorded an estimated liability of \$1.7 million for research and development efforts as of September 30, 2018. The Company incurred charges of \$1.1 million and \$3.2 million for the three and nine months ended September 30, 2017. The Company made payments of \$0.3 million and \$2.2 million for the three and nine months ended September 30, 2017. The Company recorded an estimated liability of \$1.9 million for research and development efforts as of September 30, 2017.

### **(4) 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 will promote Cologuard and provide certain other sales and marketing services. The Company and Pfizer committed in the Promotion Agreement to invest specified amounts in the advertising and promotion of Cologuard. The Company will be obligated to pay Pfizer a promotion fee based on incremental gross profits over specified baselines and pay Pfizer royalties for Cologuard related revenues for a specified period after the expiration or termination of the Promotion Agreement. The initial term of Promotion Agreement runs through December 31, 2021. As of September 30, 2018, no work has been performed under the Promotion Agreement and as such there is no impact on the Company’s condensed consolidated financial statements.

## (5) 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 2010 Employee Stock Purchase Plan, the 2015 Inducement Award 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 awards, restricted stock units (“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 \$16.5 million and \$44.6 million in stock-based compensation expense during the three and nine months ended September 30, 2018. The Company recorded \$10.8 million and \$23.0 million in stock-based compensation expense during the three and nine months ended September 30, 2017.

In connection with the April 25, 2018 transition of the Company’s former Chief Operating Officer, the Company accelerated the vesting of 69,950 shares under his previously unvested stock options and 54,350 shares under his previously unvested restricted stock units whereby such unvested stock options and unvested restricted stock units vest on December 31, 2018. It was determined that the continuing service to be provided by the Company’s former Chief Operating Officer to the Company through December 31, 2018 is substantive and, as a result, the Company will recognize the additional non-cash stock-based compensation expense for the modified awards evenly over the transition term of April 25, 2018 through December 31, 2018. During the three and nine months ended September 30, 2018, the Company recorded \$1.4 million and \$2.5 million, respectively, of non-cash stock-based compensation expense for the modified awards.

### Determining Fair Value

**Valuation and Recognition** – The fair value of each option award is estimated on the date of grant using the Black-Scholes option-pricing model. The fair value of each market measure-based award is estimated on the date of grant using a Monte Carlo simulation 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. The Black-Scholes and Monte Carlo pricing models utilize 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 used in the Black-Scholes and Monte Carlo valuation models on the implied yield currently available on U.S. Treasury zero-coupon issues with an equivalent expected term.

**Forfeitures** – Beginning in 2017, the Company adopted Accounting Standards Update (“ASU”) No. 2016-09, *Compensation – Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting* (“Update 2016-09”). With the adoption of Update 2016-09, forfeiture estimates are no longer required, and the effects of actual forfeitures are recorded at the time they occur. The impact on the Company’s condensed consolidated balance sheet as of March 31, 2017 was a cumulative-effect adjustment of \$0.4 million, increasing opening accumulated deficit and additional paid-in capital.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
<b>Option Plan Shares</b>				
Risk-free interest rates	(1)	2.06%	2.73% - 2.79%	2.06% - 2.13%
Expected term (in years)	(1)	6.56	5.45 - 6.43	6.56 - 6.59
Expected volatility	(1)	62.5%	61.82% - 66.17%	62.5% - 62.9%
Dividend yield	(1)	0%	0%	0%
Weighted average fair value per share of options granted during the period	(1)	\$ 27.03	\$ 24.55	\$ 25.18
<b>ESPP Shares</b>				
Risk-free interest rates	(2)	(2)	2.05% - 2.5%	0.98% - 1.28%
Expected term (in years)	(2)	(2)	0.5 - 2	0.5 - 2
Expected volatility	(2)	(2)	51.75% - 65.39%	66.4% - 85.5%
Dividend yield	(2)	(2)	0%	0%
Weighted average fair value per share of stock purchase rights granted during the period	(2)	(2)	\$ 18.68	\$ 13.05

(1) The Company did not grant options under its 2010 Stock Plan during the period indicated.

(1) The Company did not issue stock purchase rights under its 2010 Employee Stock Purchase Plan during the respective period.

#### Stock Option and Restricted Stock Activity

A summary of stock option activity under the Stock Plans during the nine months ended September 30, 2018 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, 2018	3,360,461	\$ 11.89	6.4	
Granted	343,566	44.37		
Exercised	(848,061)	7.52		
Forfeited	—	—		
Outstanding, September 30, 2018	2,855,966	\$ 17.10	6.7	\$ 176,558
Exercisable, September 30, 2018	1,329,452	\$ 10.52	4.8	\$ 90,931

(1) The aggregate intrinsic value of options outstanding, exercisable and vested and expected to vest is calculated as the difference between the exercise price of the underlying options and the market price of the Company's common stock for options that had exercise prices that were lower than the \$78.92 market price of the Company's common stock at September 28, 2018. The total intrinsic value of options exercised during the nine months ended September 30, 2018 and 2017 was \$40.1 million and \$11.2 million, respectively.

As of September 30, 2018, there was \$127.8 million of total unrecognized compensation cost related to non-vested share-based compensation arrangements granted under all Stock Plans. Total unrecognized compensation cost will be adjusted for future forfeitures. The Company expects to recognize that cost over a weighted average period of 2.9 years.

[Table of Contents](#)

A summary of restricted stock and restricted stock unit activity under the Stock Plans during the nine months ended September 30, 2018 is as follows:

	<b>Restricted</b>	<b>Weighted</b>
	<b>Shares and RSUs</b>	<b>Average Grant</b>
		<b>Date Fair Value</b>
Outstanding, January 1, 2018	6,148,778	\$ 15.76
Granted	1,504,700	48.55
Released	(1,209,608)	20.84
Forfeited	(164,161)	32.78
Outstanding, September 30, 2018	<u>6,279,709</u>	<u>\$ 22.14</u>

**(6) FAIR VALUE MEASUREMENTS**

The Financial Accounting Standards Board has issued authoritative guidance which requires that fair value should 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 the 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.

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.

Fixed-income securities and mutual funds are valued using a third-party pricing agency. The valuation is based on observable inputs including pricing for similar assets and other observable market factors. There has been no material change from period to period. The estimated fair value of the Company's long-term debt represents a Level 2 measurement. When determining the estimated fair value of the Company's long-term debt, the Company used market-based risk measurements, such as credit risk. See Note 8 and Note 10 for further detail on the Company's long-term debt.

[Table of Contents](#)

The following table presents the Company's fair value measurements as of September 30, 2018 along with the level within the fair value hierarchy in which the fair value measurements in their entirety fall.

(In thousands)	Fair Value at September 30, 2018	Fair Value Measurement at September 30, 2018 Using:		
		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	\$ 92,318	\$ 92,318	\$ —	\$ —
U.S. government agency securities	63,694	—	63,694	—
Commercial paper	5,693	—	5,693	—
<b>Available-for-sale</b>				
<b>Marketable securities</b>				
Corporate bonds	415,459	—	415,459	—
Asset backed securities	287,742	—	287,742	—
U.S. government agency securities	265,131	—	265,131	—
Certificates of deposit	43,104	—	43,104	—
Commercial paper	12,076	—	12,076	—
<b>Total</b>	<b>\$ 1,185,217</b>	<b>\$ 92,318</b>	<b>\$ 1,092,899</b>	<b>\$ —</b>

The following table presents the Company's fair value measurements as of December 31, 2017 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, 2017	Fair Value Measurement at December 31, 2017 Using:		
		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	\$ 61,297	\$ 61,297	\$ —	\$ —
Commercial paper	10,995	—	10,995	—
Certificates of deposit	1,499	—	1,499	—
U.S. government agency securities	3,700	—	3,700	—
<b>Available-for-sale</b>				
<b>Marketable securities</b>				
Corporate bonds	181,305	—	181,305	—
Asset backed securities	94,515	—	94,515	—
U.S. government agency securities	54,812	—	54,812	—
Commercial paper	9,946	—	9,946	—
Certificates of deposit	6,646	—	6,646	—
<b>Total</b>	<b>\$ 424,715</b>	<b>\$ 61,297</b>	<b>\$ 363,418</b>	<b>\$ —</b>

The Company monitors investments for other-than-temporary impairment. It was determined that unrealized gains and losses as of September 30, 2018 and December 31, 2017 are temporary in nature because the change in market value for those securities has resulted from fluctuating interest rates rather than a deterioration of the credit worthiness of the issuers. So long as the Company holds these securities to maturity, it is unlikely to experience gains or losses. In the event that the Company disposes of these securities before maturity, it is expected that realized gains or losses, if any, will be immaterial.

[Table of Contents](#)

The following table summarizes gross unrealized losses and fair values of our investments in an unrealized loss position as of September 30, 2018, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position:

(In thousands)	September 30, 2018					
	Less than 12 months		12 months or greater		Total	
	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss
Marketable securities						
Corporate bonds	\$ 258,664	\$ (382)	\$ 24,871	\$ (91)	\$ 283,535	\$ (473)
U.S. government agency securities	250,157	(410)	14,975	(21)	265,132	(431)
Asset backed securities	246,362	(472)	22,004	(76)	268,366	(548)
Certificates of deposit	28,446	(22)	—	—	28,446	(22)
Commercial paper	12,076	(5)	—	—	12,076	(5)
Total	\$ 795,705	\$ (1,291)	\$ 61,850	\$ (188)	\$ 857,555	\$ (1,479)

The following summarizes contractual underlying maturities of the Company's available-for-sale investments in debt securities at September 30, 2018:

(In thousands)	Due after one year through four years			
	Due one year or less		Due after one year through four years	
	Cost	Fair Value	Cost	Fair Value
Marketable securities				
Corporate bonds	\$ 318,313	\$ 317,926	\$ 97,515	\$ 97,533
U.S. government agency securities	186,406	186,135	79,157	78,996
Asset backed securities	65,931	65,792	222,355	221,950
Certificates of deposit	39,216	39,197	3,895	3,907
Commercial paper	12,081	12,076	—	—
Total	\$ 621,947	\$ 621,126	\$ 402,922	\$ 402,386

**(7) NEW MARKET TAX CREDIT**

As more fully described in the 2017 Form 10-K, 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, 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 \$2.4 million was recorded in Other Long-Term Liabilities on the condensed consolidated balance sheets. The benefit of this net \$2.4 million contribution will be recognized as a decrease in expenses, included in cost of sales, as the Company amortizes the contribution liability over the seven-year compliance period as it is being earned through the Company's on-going compliance with the conditions of the NMTC program. The Company has recorded \$0.1 million and \$0.3 million as a decrease of expenses for the three and nine months ended September 30, 2018. At September 30, 2018, the remaining balance of \$1.1 million is included in other long-term liabilities in the Company's condensed consolidated balance sheets. The Company recorded \$0.1 million and \$0.3 million as a decrease of expenses for the three and nine months ended September 30, 2017. At September 30, 2017, the remaining balance of \$1.4 million was included in other long-term liabilities in the Company's condensed consolidated balance sheets. The Company incurred approximately \$0.2 million of debt issuance costs related to the above transactions, which are recorded as a direct deduction from the liability. The debt issuance costs are being amortized over the life of the agreements.

## **(8) LONG-TERM DEBT**

### **Building Purchase Mortgage**

During June 2015, the Company entered into a \$5.1 million mortgage credit agreement with a third-party financial institution to finance the purchase of a research and development facility located in Madison, Wisconsin. The mortgage credit agreement was collateralized by the acquired building.

On September 28, 2018, the Company entered into a Purchase and Sale Agreement with a third-party to sell its research and development facility. The Company also simultaneously entered into a Master Lease Agreement with the third-party to lease the facility back. The sale-leaseback arrangement is recorded under the financing method of accounting. Under the financing method, the Company does not recognize the proceeds received from the third-party as a sale of the facility. The facility remains in property, plant and equipment on the Company's condensed consolidated balance sheet, and the consideration of \$6.8 million received in the sale is recorded as a financing obligation in other long-term liabilities on the Company's condensed consolidated balance sheet as of September 30, 2018. A portion of the proceeds received from the sale were used to repay the mortgage on the facility, and as of September 30, 2018, the \$4.5 million outstanding balance of the mortgage had been fully repaid in connection with the termination of the credit agreement. The remaining proceeds were utilized to fund the build-to-suit lease discussed in more detail below.

Prior to their repayment on September 28, 2018, borrowings under the credit agreement bore interest at 4.15%. The Company made interest-only payments on the outstanding principal balance for the period between July 12, 2015 and September 12, 2015. The credit agreement required the Company to make, beginning on October 12, 2015 and continuing through May 12, 2019, monthly principal and interest payments of \$31,000, and a final principal and interest payment of \$4.4 million due on the maturity date of June 12, 2019.

Additionally, the Company previously recorded \$73,000 in mortgage issuance costs, which were recorded as a direct deduction from the mortgage liability. The issuance costs were being amortized through June 12, 2019. The Company recorded \$4,000 and \$13,000 in amortization of mortgage issuance costs for each of the three and nine months ended September 30, 2018 and 2017. As of September 30, 2018, the outstanding balance of the mortgage issuance costs was written down to \$0 due to the sale of the facility and the payoff of the mortgage.

### **Revolving Loan Agreement**

During December 2017, the Company entered into a revolving loan agreement (the "Revolving Loan Agreement") with MB Financial Bank, N.A. ("MB Bank"). The Revolving Loan Agreement provides the Company with a 24-month secured revolving credit facility of up to \$15.0 million (the "Revolver"). The Revolver is collateralized by the Company's accounts receivable and inventory. The Revolver is available for general working capital purposes and all other lawful corporate purposes, provided that the Company may not use the Revolver to purchase or carry margin stock.

Borrowings under the Revolving Loan Agreement accrue interest at one of the following per annum rates, at the election of the Company (i) the sum of the 1-month LIBOR rate plus 2.00 percent, (ii) the sum of the 3-month LIBOR rate plus 2.00 percent, or (iii) the MB Bank Reference Rate minus 0.5 percent. Loans under the Revolving Loan Agreement may be prepaid at any time without penalty. The Revolver's maturity date is December 10, 2019.

The Company agreed in the Revolving Loan Agreement to various financial covenants including minimum liquidity and minimum tangible net worth. As of September 30, 2018, the Company is in compliance with all covenants.

As of September 30, 2018, the Company has not drawn any funds from, nor are any amounts outstanding under, the Revolving Loan Agreement.

### **Construction Loan Agreement**

During December 2017, the Company entered into a loan agreement with MB Bank (the "Construction Loan Agreement"), which provides the Company with a non-revolving construction loan (the "Construction Loan") of \$25.6 million. The Company will use 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.

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, MB 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 MB Bank's initial advance of loan proceeds under the Construction Loan Agreement, the Company is 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 accordance with the Construction Loan Agreement, the Company will make monthly interest-only payments through November 2019. Starting in December 2019, the Company will make monthly payments toward the outstanding principal balance due plus accrued interest. As of September 30, 2018, the Company has drawn \$17.3 million from the Construction Loan. For the three and nine months ended September 30, 2018, the Company incurred interest of \$0.1 million, which is accrued for as an interest reserve and represents a portion of the \$17.3 million loan balance as of September 30, 2018. The Company capitalized the \$0.1 million to the construction project.

Additionally, the Company has recorded deferred financing costs of \$0.2 million related to the Construction Loan. These deferred financing costs are recorded as a reduction to long-term debt in the Company's condensed consolidated balance sheets. The deferred financing costs are being amortized through December 10, 2022. The Company has recorded \$11,000 and \$34,000 in amortization of deferred financing costs related to the Construction Loan for the three and nine months ended September 30, 2018. There was no amortization expense recorded for the three and nine months ended September 30, 2017.

The Company agreed in the Construction Loan Agreement to various financial covenants including minimum liquidity and minimum tangible net worth. As of September 30, 2018, the Company is in compliance with all covenants.

#### **Build-to-Suit Leases**

The Company evaluates whether it is the accounting owner of leased assets during the construction period when the Company is involved in the construction of the leased asset. Due to funding provided by the Company for costs related to the construction of the Company's new Madison, WI, headquarters, under build-to-suit lease accounting, as of September 30, 2018, the Company is considered, for accounting purposes only, the owner of the construction project. The Company will contribute \$4.5 million towards the project. All project construction costs incurred over that amount are to be paid by the landlord but will be included in assets under construction and a corresponding liability by the Company. As of September 30, 2018, and December 31, 2017, the Company recorded \$2.4 million and \$0, respectively, in construction costs related to this project, all of which are being funded by the Company's \$4.5 million contribution to date.

The construction project is expected to be completed in 2020. Upon completion the Company will evaluate whether the arrangement meets the criteria for sale-leaseback accounting treatment.

#### **(9) 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 if the Company expends \$26.3 million in capital investments and establishes and maintains 758 full-time positions in the state of Wisconsin 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 September 30, 2018, the Company has earned \$9.0 million of tax credits and has received payment of \$2.4 million from the WEDC. The unpaid portion is \$6.6 million, of which \$1.9 million is reported in prepaid expenses and other current assets and \$4.7 million is reported in other long-term assets, reflecting when collection of the refundable tax credits is expected to occur. As of September 30, 2018, the Company also has recorded a \$2.4 million liability in other short-term liabilities and a \$2.8 million liability in other long-term liabilities, reflecting when the expected benefit of the tax credit amortization will reduce future operating expenses.

During the three and nine months ended September 30, 2018, the Company amortized \$0.6 million and \$1.6 million, respectively, of the tax credits earned as a reduction of operating expenses. During the three and nine months ended September 30, 2017, the Company amortized \$0.3 million and \$0.9 million, respectively, of the tax credits earned as a reduction of operating expenses.

## **(10) CONVERTIBLE NOTES**

On January 17, 2018, the Company issued and sold \$690.0 million in aggregate principal amount of 1.0% Convertible Notes (the “January 2018 Notes”) with a maturity date of January 15, 2025 (the “Maturity Date”). The January 2018 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 2018 Notes were approximately \$671.1 million, after deducting underwriting discounts and commissions and the offering expenses payable by the Company.

On June 12, 2018, the Company issued and sold an additional \$218.5 million in aggregate principal amount of 1.0% Convertible Notes (the “June 2018 Notes”). The June 2018 Notes were issued under the same indenture pursuant to which the Company previously issued the January 2018 Notes (the “Indenture”). The January 2018 Notes and the June 2018 Notes (collectively, the “Notes”) have identical terms and will be treated as a single series of securities. The net proceeds from the issuance of the June 2018 Notes were approximately \$225.3 million, after deducting underwriting discounts and commissions and the offering expenses payable by the Company.

Prior to July 15, 2024, the Notes are convertible only upon the occurrence of certain events and during certain periods, as set forth in the Indenture, and thereafter, until the close of business on the second scheduled trading day immediately preceding the Maturity Date. 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 July 15, 2024, until the close of business on the second scheduled trading day immediately preceding the maturity date, holders may convert their Notes at any time.

It is the Company’s intent and policy to settle all conversions through combination settlement. The initial conversion rate for the Notes is 13.2569 shares of common stock per \$1,000 principal amount, which is equivalent to an initial conversion price of approximately \$75.43 per share of the Company’s common stock. 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.

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 September 30, 2018 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.

Under current accounting guidance, an entity must separately account for the liability and equity components of convertible debt instruments (such as the January 2018 Notes and June 2018 Notes) that may be settled entirely or partially in cash upon conversion in a manner that reflects the issuer's economic interest cost. The liability component of the instrument was valued in a manner that reflects the market interest rate for a similar nonconvertible instrument at the date of issuance. On the January 2018 Notes, the initial carrying value of the liability component of \$495.1 million was calculated using a 6.0% assumed borrowing rate. The equity component of \$194.9 million, representing the conversion option, was determined by deducting the fair value of the liability component from the par value of the January 2018 Notes and is recorded in additional paid-in capital on the Company's condensed consolidated balance sheet at the issuance date. That equity component is treated as a discount on the liability component of the January 2018 Notes, which is amortized over the seven-year term of the January 2018 Notes using the effective interest rate method. The equity component is not re-measured as long as it continues to meet the conditions for equity classification. On the June 2018 Notes, the initial carrying value of the liability component of \$159.7 million was calculated using a 6.0% assumed borrowing rate. The equity component of \$73.0 million, representing the conversion option, was determined by deducting the fair value of the liability component from the par value of the June 2018 Notes and adding in the premium at which the June 2018 Notes were sold. This is recorded in additional paid-in capital on the Company's condensed consolidated balance sheet at the issuance date. That equity component, prior to adding in the premium, is treated as a discount on the liability component of the June 2018 Notes, which is amortized over the remaining term of six-and-a-half years of the June 2018 Notes using the effective interest rate method. The equity component is not re-measured as long as it continues to meet the conditions for equity classification.

The Company allocated the total transaction costs of approximately \$18.8 million related to the issuance of the January 2018 Notes to the liability and equity components of the January 2018 Notes based on their relative values, with \$13.1 million being allocated to the liability component of the January 2018 Notes. Transaction costs attributable to the liability component are amortized to interest expense over the seven-year term of the January 2018 Notes, and transaction costs attributable to the equity component are netted with the equity component in stockholders' equity.

The Company allocated the total transaction costs of approximately \$7.4 million related to the issuance of the June 2018 Notes to the liability and equity components of the June 2018 Notes based on their relative values, with \$5.1 million being allocated to the liability component of the June 2018 Notes. Transaction costs attributable to the liability component are amortized to interest expense over the remaining six-and-a-half year term of the June 2018 Notes, and transaction costs attributable to the equity component are netted with the equity component in stockholders' equity.

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.

Convertible notes, net of discounts and deferred financing costs at September 30, 2018, consisted of the following:

<b>(In thousands)</b>	
Principal	\$ 908,500
Debt discount, net	(235,135)
Deferred financing costs	(17,024)
Net carrying amount	<u>\$ 656,341</u>

## **(11) RELATED PARTY TRANSACTION**

In May 2017, the Company entered into a professional services agreement for recruiting and related services with a firm whose principal is a non-employee director. In accordance with the agreement, the Company is expected to make cash payments totaling up to an aggregate of \$0.5 million under the agreement during 2017 and 2018. The Company incurred charges of \$0.2 million and \$0.3 million for the three and nine months ended September 30, 2018. The Company made payments of \$0.2 million and \$0.3 million for the three and nine months ended September 30, 2018. The Company incurred charges of \$0.1 million and \$0.2 million for the three and nine months ended September 30, 2017. The Company made payments of \$0.1 million and \$0.2 million for the three and nine months ended September 30, 2017.

In November 2017, the Company made a \$3.0 million equity investment in Biomatrix, as further described in Note 2. The Company incurred \$0.1 million and \$0.2 million in purchases from the supplier for the three and nine months ended September 30, 2018. In June 2018, the Company loaned Biomatrix \$1.0 million pursuant to a Senior Secured Promissory Note and Security Agreement, which is reported in prepaid expenses and other current assets on the Company's condensed consolidated balance sheets. As discussed in Note 2 above, on October 2, 2018, the Company acquired the remaining outstanding equity interests of Biomatrix.

## **(12) RECENT ACCOUNTING PRONOUNCEMENTS**

In May 2014, the Financial Accounting Standards Board issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The Company adopted this guidance on January 1, 2018. See Note 2 for additional discussion.

In January 2016, the Financial Accounting Standards Board issued ASU No. 2016-01, "*Financial Instruments – Overall: Recognition and Measurement of Financial Assets and Financial Liabilities*" ("Update 2016-01"). Update 2016-01 modifies how entities measure equity investments and present changes in the fair value of financial liabilities. Under the new guidance, entities will have to measure equity investments that do not result in consolidation and are not accounted for under the equity method at fair value and recognize any changes in fair value in net income unless the investments qualify for the new practicality exception. A practicality exception will apply to those equity investments that do not have readily determinable fair value and do not qualify for the practical expedient to estimate fair value under ASC 820, "Fair Value Measurements," and as such these investments may be measured at cost. Update 2016-01 will be effective for the Company's fiscal year beginning January 1, 2018, and subsequent interim periods. Update 2016-01 was further amended in February 2018 by ASU No. 2018-03, *Technical Corrections and Improvements to Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*, ("Update 2018-03"). Update 2018-03 clarifies certain aspects of the guidance issued in Update 2016-01. Public business entities with fiscal years beginning between December 15, 2017 and June 15, 2018, are not required to adopt these amendments until the interim period beginning after June 15, 2018. Early adoption is allowed as long as Update 2016-01 has been adopted. The Company adopted Update 2016-01 on January 1, 2018, and it did not have an impact on the Company's condensed consolidated financial statements.

In February 2016, the Financial Accounting Standards Board issued ASU No. 2016-02, *Leases (Topic 842)*, ("Update 2016-02") which requires recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases under previous GAAP. The amendments in this update are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. In transition, lessees and lessors are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. The Company will adopt the guidance in 2019. The Company is currently evaluating the effects that the adoption of Update 2016-02 will have on the Company's condensed consolidated financial statements; however, as the Company has several leases, assets and liabilities are expected to increase upon adoption for right-of-use assets and lease liabilities.

In August 2016, the Financial Accounting Standards Board issued ASU No. 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*, ("Update 2016-15"). Current GAAP either is unclear or does not include specific guidance on the eight cash flow classification issues included in the amendments in Update 2016-15. The amendments are an improvement to GAAP because they provide guidance for each of the eight issues, thereby reducing the current and potential future diversity in practice. The Company adopted this guidance January 1, 2018, and it did not have an impact on the Company's condensed consolidated financial statements.

In October 2016, the Financial Accounting Standards Board issued ASU No. 2016-16, *Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory*, (“Update 2016-16”). This amendment improves the accounting for the income tax consequences of intra-entity transfers of assets other than inventory. The Company adopted this guidance on January 1, 2018, and it did not have an impact on the Company’s condensed consolidated financial statements.

In November 2016, the Financial Accounting Standards Board issued ASU No. 2016-18, *Statement of Cash Flows; Restricted Cash*, (“Update 2016-18”). Update 2016-18 provides guidance on the classification of restricted cash in the statement of cash flows. The Company adopted this guidance on January 1, 2018, and it did not have an impact on the Company’s condensed consolidated financial statements, as the Company does not have restricted cash.

In May 2017, the Financial Accounting Standards Board issued ASU No. 2017-09, *Compensation – Stock Compensation (Topic 718): Scope of Modification Accounting*, (“Update 2017-09”). Update 2017-09 provides guidance on determining which changes to the terms and conditions of share-based payment awards require an entity to apply modification accounting under Topic 718. The Company adopted this guidance on January 1, 2018, and it did not have an impact on the Company’s condensed consolidated financial statements.

In June 2018, the Financial Accounting Standards Board issued ASU No. 2018-07 (Topic 718), *Improvements to Nonemployee Share-Based Payment Accounting*, (“Update 2018-07”). Update 2018-07 expands the scope of Topic 718 to include share-based payment transactions for acquiring goods and services from nonemployees. An entity should apply the requirements to Topic 718 to nonemployee awards except for certain exemptions specified in the amendment. The guidance is effective for fiscal years beginning after December 15, 2018, including interim reporting periods within that fiscal year. Early adoption is permitted, but no earlier than an entity’s adoption of Topic 606. The Company is currently evaluating the impact of the guidance on its condensed consolidated financial statements.

In July 2018, the Financial Accounting Standards Board issued ASU 2018-09, *Codification Improvements*, (“Update 2018-09”). Update 2018-09 provided various minor codification updates and improvements to address comments that the FASB had received regarding unclear or vague accounting guidance. The guidance is effective for fiscal years beginning after December 15, 2018, including interim reporting periods within that fiscal year. The Company is currently evaluating the impact of the guidance on its condensed consolidated financial statements, and does not anticipate that this guidance will have a material impact.

In July 2018, the Financial Accounting Standards Board issued ASU 2018-11, *Leases (Topic 842): Targeted Improvements*, (“Update 2018-11”). Update 2018-11 provided companies an alternative adoption method of ASU 2016-02 discussed above, by providing an option of recognizing a cumulative-effect adjustment to the opening balance of retained earnings upon adoption. The Company will adopt ASU 2018-11 in fiscal year 2019, and the Company is currently evaluating the impact of this guidance on its condensed consolidated financial statements.

In August 2018, the Financial Accounting Standards Board issued ASU 2018-13, *Fair Value Measurement (Topic 820); Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement*, (“Update 2018-13”). Update 2018-13 provided an update to the disclosure requirements for fair value measurements under the scope of ASC 820. The guidance is effective for fiscal years beginning after December 15, 2019. The Company is currently evaluating the impact of the guidance on its condensed consolidated financial statements.

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

The following Discussion and Analysis of Financial Condition and Results of Operations of Exact Sciences Corporation (together with its subsidiaries, "Exact," "we," "us," "our" or the "Company") 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, 2017, which has been filed with the SEC (the "2017 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, 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 and marketing 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 our 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. Our actual results and financial condition 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 our actual results and financial condition to differ materially from those indicated in the forward-looking statements include, among others, the following: 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 willingness of health insurance companies and other payers to cover our products and services and adequately reimburse us for our products and services; the amount and nature of competition from other cancer screening and diagnostic products and services; the effects of the adoption, modification or repeal of any healthcare reform law, rule, order, interpretation or policy; the effects of changes in the 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 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; our ability to effectively utilize strategic partnerships and acquisitions; our success establishing and maintaining collaborative, licensing and supplier arrangements; our ability to maintain regulatory approvals and comply with applicable regulations; 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 2017 Form 10-K and subsequently filed Quarterly Report(s) 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

We are a molecular diagnostics company currently focused on the early detection and prevention of some of the deadliest forms of cancer. We have developed an accurate, non-invasive, patient-friendly screening test called Cologuard for the early detection of colorectal cancer and pre-cancer, and we are currently working on the development of additional tests for other types of cancer, with the goal of becoming a leader in cancer diagnostics.

### ***Our Cologuard Test***

Colorectal cancer is the second leading cause of cancer deaths in the U.S. and the leading cause of cancer deaths in the U.S. among non-smokers. Each year in the U.S. there are approximately:

- 140,000 new cases of colorectal cancer
- 51,000 deaths from colorectal cancer

Colorectal cancer treatment represents a significant, growing healthcare cost. As of 2010, \$14 billion was spent annually in the U.S. on colorectal cancer treatment, and the projected annual treatment costs are expected to be \$20 billion in 2020. The incidence of colorectal cancer in Medicare patients is expected to rise from 106,000 cases in 2010 to more than 180,000 cases in 2030.

It is widely accepted that colorectal cancer is among the most preventable, yet least prevented cancers. Colorectal cancer can take up to 10-15 years to progress from a pre-cancerous lesion to metastatic cancer and death. Patients who are diagnosed early in the progression of the disease—with pre-cancerous lesions or polyps or early-stage cancer—are more likely to have a complete recovery and to be treated less expensively. Of the more than 85 million people who are at average-risk for colorectal cancer in the U.S., 38 percent have not been screened according to current guidelines. Poor compliance with screening guidelines has meant that nearly two-thirds of colorectal cancer diagnoses are made in the disease's late stages. The five-year survival rates for stages 3 and 4 are 70 percent and 13 percent, respectively. We believe the large underserved population of unscreened and inadequately screened patients represents a significant opportunity for a patient-friendly screening test.

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. Eleven biomarkers are targeted that have been shown to be strongly associated with colorectal cancer and pre-cancer. Methylation, mutation, and hemoglobin results are combined in the laboratory analysis through a proprietary algorithm to provide a single positive or negative reportable result.

On August 11, 2014 the U.S. Food and Drug Administration (“FDA”) approved Cologuard for use as the first and only sDNA non-invasive colorectal cancer screening test. Our 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%

The competitive advantages of sDNA screening may provide a significant market opportunity. If the test were used by 40 percent of the 85 million people that we estimate to be eligible for screening in the U.S. between the ages of 50-85, at a three-year interval, and if average revenue per test was \$500, we estimate that our annual Cologuard revenue would be more than \$5.5 billion.

### ***Our Cologuard Commercialization Strategy***

Our commercialization strategy includes three main elements focusing on physicians, patients, and payers.

#### *Physicians and Patients*

Our sales team actively engages with physicians and their staff to emphasize the need for colorectal cancer screening, educate them on the value of Cologuard, and enroll them in our physician ordering system to enable them to prescribe the test. We focus on specific physicians based on a combination of their Cologuard order history and ordering

potential and also on physician groups and larger regional and national health systems. We recently expanded our physician engagement and Cologuard marketing campaign through a Promotion Agreement (“Promotion Agreement”) with Pfizer Inc. (“Pfizer”). The Promotion Agreement is discussed in more detail below.

Securing inclusion in guidelines and quality measures is a key part of our physician engagement strategy since many physicians rely on such guidelines and quality measures when making screening recommendations. In June 2016, the US Preventive Services Task Force (“USPSTF”) issued an updated recommendation statement for colorectal cancer screening and gave an “A” grade to colorectal cancer screening starting at age 50 and continuing until age 75. The statement specifies seven screening methods, including FIT-DNA (which is Cologuard).

Many professional colorectal cancer screening guidelines in the U.S., including those of the ACS and the National Comprehensive Cancer Network (“NCCN”), recommend regular screening using any of a variety of methods. Since 2008, joint colorectal cancer screening guidelines endorsed by the ACS have included sDNA screening technology as a screening option for the detection of colorectal cancer in average risk, asymptomatic individuals starting at age 50. In October 2014, the ACS updated its colorectal cancer screening guidelines to specifically include Cologuard as a recommended screening test. In June 2016, the NCCN updated its Colorectal Cancer Screening Guidelines to add sDNA screening, at a once-every- three-years interval, to its list of recommended screening tests. In May 2018, the ACS updated its colorectal cancer screening guidelines to recommend colorectal cancer screening begin at age 45 for people at average risk of the disease due to the rising incidence rate in that population. There are 21 million people who are between the ages of 45-49, and we estimate approximately 18 million of them are at average risk for colorectal cancer and eligible for screening. Cologuard is currently indicated for average risk individuals age 50 years or older. We intend to seek FDA approval to expand Cologuard’s indication to people age 45 and older who are at average risk for colorectal cancer to align with the ASC updated guideline. The timing of such approval is unknown and subject to clinical evidence requirements that are not yet defined.

In October 2016, the National Committee for Quality Assurance (“NCQA”) included stool DNA testing (which is Cologuard) on a three-year interval as one of the methods permitted for colorectal cancer screening in the 2017 Healthcare Effectiveness Data and Information Set (“HEDIS”) quality measures. More than 90 percent of America’s health plans measure quality based on HEDIS. In April 2017, the Centers for Medicare & Medicaid Services (“CMS”) included Cologuard in its updated 2018 Medicare Advantage Star Ratings program.

A critical part of the value proposition of Cologuard is our compliance program, which involves active engagement with patients and providers. This customer-service-oriented activity is focused on encouraging and helping patients to complete Cologuard tests that have been ordered for them by their providers. We may undertake several activities to promote patient compliance including letters, text messages, emails, phone calls, and incentives such as gift cards.

After the launch of Cologuard, we initiated a significant public relations effort to engage patients in the U.S., and launched demographically-targeted direct-to-patient advertising campaigns in digital, social, print, and other channels. In 2016, we began a national television advertising campaign, with a majority of placements in national cable and syndicated programming widely viewed by our target patient demographic. In the second quarter of 2018, we extended our television advertising campaign to highlight the accuracy, ease of use, and commercial coverage of Cologuard. In the remainder of 2018, we plan to increase our television advertising efforts, accelerate our investment in digital and social media, and embark upon strategic branded partnerships designed to increase awareness for Cologuard.

We are focused on strengthening our Cologuard core business by increasing the size of our nationwide salesforce. We advanced this goal in August 2018 by entering into a Promotion Agreement with Pfizer. Under the terms of the Promotion Agreement, Pfizer will promote Cologuard and provide certain other sales and marketing services. We and Pfizer committed in the Promotion Agreement to invest specified amounts in the advertising and promotion of Cologuard. We will be obligated to pay Pfizer a promotion fee based on incremental gross profits over specified baselines and pay Pfizer royalties for Cologuard related revenues for a specified period after the expiration or termination of the Promotion Agreement. The initial term of Promotion Agreement runs through December 31, 2021.

*Payers*

Successful commercialization of our Cologuard test depends, in large part, on the availability of adequate reimbursement from government insurance plans, managed care organizations and private insurance plans.

On October 9, 2014, CMS issued a National Coverage Determination (“NCD”) for Cologuard following a parallel review process with the FDA. Because Medicare covers approximately 47 percent of patients in the current screening population for Cologuard, the NCD for Cologuard laid the cornerstone for our payer-engagement strategy. Cologuard was the first screening test approved by the FDA and covered by CMS through a parallel review process. As outlined in the NCD, Medicare Part B covers Cologuard once every three years for beneficiaries who meet all of the following criteria:

- age 50 to 85 years,
- asymptomatic (no signs or symptoms of colorectal disease including but not limited to lower gastrointestinal pain, blood in stool, positive guaiac fecal occult blood test or fecal immunochemical test), and
- at average risk for developing colorectal cancer (e.g., no personal history of adenomatous polyps, colorectal cancer, or inflammatory bowel disease, including Crohn’s Disease and ulcerative colitis; no family history of colorectal cancers or adenomatous polyps, familial adenomatous polyposis, or hereditary non-polyposis colorectal cancer).

Pursuant to the 2017 Clinical Laboratory Fee Schedule, CMS reimbursed Cologuard at the rate of \$512.43 per test. Under the Protecting Access to Medicare Act of 2014, effective January 1, 2018, the CMS reimbursement rate for Cologuard was set at \$508.87, which was the volume-weighted median of private payer rates for Cologuard for the period from January 1, 2016 to June 30, 2016. We expect that the CMS reimbursement rate established for 2018 will remain in place for three years and then be reset based on the volume-weighted median of private payer rates for Cologuard during the data collection period from January 1, 2019 to June 30, 2019. Payments from CMS are currently subject to sequestration.

In addition to Medicare reimbursement, we seek to secure favorable coverage and in-network reimbursement agreements from commercial payers. Most commercial payers have issued positive coverage decisions for Cologuard, and we have entered into contracts with several payers to include Cologuard as an in-network service. In-network agreements with payers have varying terms and conditions, including reimbursement rate, term and termination. From time to time in the ordinary course of our business, we may enter into new agreements, certain existing agreements may expire without renewal and certain other existing agreements may be terminated early by us or the third-party payer. We believe that commercial payers’ reimbursement of Cologuard will depend on a number of factors, including payers’ determination that it is: sensitive and specific for colorectal cancer; not experimental or investigational; approved or recommended by major organizations’ guidelines; reliable, safe and effective; medically necessary; appropriate for the specific patient; and cost-effective. Reimbursement may also be affected by whether Cologuard is in-network for a given payer. Also, some payers may apply various medical management requirements, including a requirement that they give prior authorization for a Cologuard test before they are willing to pay for it. Other payers may perform post-payment reviews or audits, which could lead to payment recoupments. Medical management, such as prior authorizations and post-payment review or audits, may require that we, patients, or physicians provide the payer with extensive medical records and other information.

Coverage of Cologuard may also depend, in whole or in part, on whether payers determine, or courts and/or regulatory authorities determine, coverage is required under applicable federal or state laws mandating coverage of certain colorectal cancer screening services. For example, Section 2713 of the Patient Protection and Affordable Care Act (“ACA”) mandates that certain health insurers cover evidence-based items or services that have in effect a rating of “A” or “B” in the current recommendations of USPSTF without imposing any patient cost-sharing (“ACA Mandate”). Similarly, federal regulations require that Medicare Advantage plans cover “A” or “B” rated preventive services without patient cost-sharing. Following the June 2016 update to the USPSTF colorectal cancer screening recommendation statement, CMS issued an updated Evidence of Coverage notice for Medicare Advantage plans that affirms such plans must include coverage of Cologuard every three years without patient cost-sharing. While we believe the ACA Mandate requires most health insurers to cover Cologuard without patient cost-sharing, it is possible that certain health insurers will disagree and determine not to cover Cologuard. It may be difficult for us or patients to enforce the ACA Mandate

directly, and we may need to rely on states to take enforcement action, which they may choose not to do. It is also possible that the ACA Mandate will be repealed or significantly modified in the future.

We believe quality metrics may influence payers' coverage and contracting decisions, as well as physicians' cancer screening procedures. Some government and private payers are adopting pay-for-performance programs that differentiate payments for healthcare services based on the achievement of documented quality metrics, cost efficiencies or patient outcomes. Payers may look to quality measures such as HEDIS and CMS Star Ratings, to assess quality of care. We believe Cologuard's inclusion in the HEDIS measures and Star Ratings measures positively impacts payers' willingness to reimburse Cologuard, as well as physicians' willingness to prescribe the test.

### ***Our Clinical Lab Facilities***

As part of our commercialization strategy, we established a state-of-the-art, highly automated lab facility that is certified pursuant to federal Clinical Laboratory Improvement Amendments ("CLIA") requirements to process Cologuard tests and provide patient results. Our commercial lab operation is housed in a 50,000 square foot facility in Madison, Wisconsin. At our lab, we currently have the capacity to process approximately two and a half million tests per year. We are expanding our current facility to increase our lab processing capacity to approximately three million tests per year by the end of 2018.

During the fourth quarter of 2017, we began construction of a new clinical lab facility in Madison, Wisconsin that is expected to be completed mid-2019. We expect our total lab capacity at both facilities will be approximately five million tests per year by the end of 2019.

### ***Future Product Opportunities***

#### *Potential Expansion of Cologuard's Indication*

The ACS updated its colorectal cancer screening guidelines in May 2018, moving the recommended screening age from 50 to 45 for people at average risk of the disease. There are more than 21 million people who are between the ages of 45-49, and we estimate approximately 18 million of them are at average risk for colorectal cancer and eligible for screening. As indicated above, we plan to seek FDA approval to expand Cologuard's indication to people age 45 and older who are at average risk for colorectal cancer and to undertake the clinical work necessary to support such approval, so that we can promote Cologuard to that population.

#### *Product Pipeline*

We also are developing a pipeline of potential future products and services, with the goal of becoming a leader in the early detection of cancer. We believe our proprietary technology platform provides a strong foundation for the development of additional cancer screening and diagnostic tests. We are continuing to collaborate with MAYO Foundation for Medical Education and Research ("MAYO"), our development partner for Cologuard, on developing new tests. Through our collaboration with MAYO, we have identified proprietary biomarkers for several major cancers, including liver cancer and lung cancer. We have successfully performed validation studies on tissue samples for seven major cancers and on blood samples for four major cancers.

The ACS estimates that liver cancer will be diagnosed in 42,000 Americans and cause 30,000 deaths in 2018, three-fourths of which will be hepatocellular carcinoma ("HCC"). Incidence and mortality rates are both increasing at approximately 3 percent per year. People who have been diagnosed with cirrhosis of the liver or Hepatitis B are at high risk of developing HCC. Evidence shows that HCC testing in these high-risk groups leads to earlier detection and improved outcomes. The NCCN and American Association for the Study of Liver Diseases ("AASLD") guidelines recommend that these two groups be tested for HCC every six months using ultrasound and the blood-based biomarker alpha-fetoprotein ("AFP"). However, ultrasound and AFP are documented to have poor sensitivity for early stage cancer, which is the primary target of testing. We are currently seeking to develop a blood-based biomarker test to serve as an alternative to ultrasound and AFP for use in HCC testing. We published a small case-control study in 2016 showing high accuracy for detecting HCC using a blood-based panel of methylation markers. In June 2018, we announced significant progress toward developing a panel of blood-based, DNA biomarkers that could accurately detect HCC. The biomarker

panel was shown to be 95 percent sensitive for detecting HCC across all stages. Sensitivity among patients with curable-stage disease was 91 percent, and the panel has overall specificity of 93 percent. These results came from using DNA extracted from blood samples of 244 people, including 95 diagnosed across all stages of HCC, 51 with cirrhosis, and 98 healthy volunteers. Researchers tested the samples against 15 biomarkers to identify the combination of six biomarkers that yielded the most accurate detection of HCC.

The ACS estimates that, in the U.S. in 2018, lung cancer will be diagnosed in 234,000 people and cause 154,000 deaths. Currently, more than half of lung cancer cases are diagnosed at an advanced stage, after symptoms appear, when the five-year survival rate is in the low single digits. We are currently seeking to develop a blood-based biomarker test to aid in the early detection of lung cancer in individuals with lung nodules discovered through a computerized tomography (“CT”) or other scan. Such a test may help reduce the number of unnecessary biopsies and other follow-up procedures, and thereby reduce costs and improve health outcomes.

We also continue to explore opportunities for improving Cologuard, including improvements that could lower our cost of goods or expand the usage of Cologuard to different patient populations.

### ***How We Recognize Revenue***

We recognize revenue on an accrual basis upon delivery of a test result to an ordering healthcare provider for tests performed where we have an agreed-upon reimbursement rate or where we can estimate the amount that we will ultimately collect at the time delivery is complete. Accrual rates are based on the established billing rates less contractual and other adjustments, which yields the amount that we expect to ultimately collect. We determine the amount we expect to ultimately collect on a per-payer or per-agreement basis. 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, the existence of secondary payers and claim denials. 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 recognize revenue from claims on an accrual basis and later determine the judgments underlying estimated collections change, our financial results could be negatively impacted in future quarters. Historically, a portion of our revenue was recognized upon cash receipt when we were unable to reasonably estimate the amount that would ultimately be collected from a payer. Effective during the first quarter of 2017, we determined that we had the ability to reasonably estimate the amount that will ultimately be collected from all payers, including the impact of patient cost-share collections. Accordingly, we now recognize revenue on an accrual basis for all billed claims.

Our average reimbursement per test, as further defined below, was approximately \$470 and \$428 through September 30, 2018 and 2017, respectively. This cumulative average Cologuard reimbursement rate will change over time due to a number of factors, such as medical coverage decisions by payers, changes in the payer mix, the effects of contracts signed with payers, changes in allowed amounts by payers, our ability to successfully win appeals for payment, settlements reached with payers regarding previously denied claims and our ability to collect cash payments from payers and individual patients. Historical average reimbursement is not necessarily indicative of future average reimbursement.

We calculate the average Cologuard reimbursement per test on a trailing twelve-month basis for all tests that are at least six months old, since it can take that long, or in some cases longer, to collect from some payers and patients. Thus, the average reimbursement per test at September 30, 2018 and September 30, 2017, respectively, represents the total cash collected through such dates for tests performed during the twelve-month periods ended March 31, 2018 and March 31, 2017, respectively, divided by the number of tests performed during those same periods.

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

We have generated significant losses since inception and, as of September 30, 2018, we had an accumulated deficit of approximately \$981.8 million. We expect to continue to incur losses for the near future, and it is possible we may never achieve profitability.

**Laboratory service revenue.** Our laboratory service revenue is generated by performing screening services using our Cologuard test. For the three months ended September 30, 2018 and 2017, we completed approximately 241,000 and 161,000 Cologuard tests, respectively, and generated laboratory service revenue of \$118.3 million and \$72.6 million,

respectively. For the nine months ended September 30, 2018 and 2017, we completed approximately 642,000 and 395,000 Cologuard tests, respectively, and generated laboratory service revenue of \$311.5 million and \$178.6 million, respectively. The increase in revenue was primarily due to an increase in completed Cologuard tests and an increase in average revenue recognized per test during the current period.

**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 test collection kits, royalties and the cost of laboratory services to process tests and provide results to physicians. We incur expense for tests in the period in which the activities occur, therefore, gross margin as a percentage of laboratory service revenue may vary due to costs being incurred in one period that relate to revenues recognized in a later period.

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

**Cost of Sales.** Cost of sales increased to \$30.0 million for the three months ended September 30, 2018 compared to \$20.7 million for the three months ended September 30, 2017. Cost of sales increased to \$79.8 million for the nine months ended September 30, 2018 compared to \$55.7 million for the nine months ended September 30, 2017. The increase in cost of sales is primarily due to the increase in completed Cologuard tests. The Company completed approximately 241,000 and 161,000 Cologuard tests for the three months ended September 30, 2018 and 2017, respectively. The Company completed approximately 642,000 and 395,000 Cologuard tests for the nine months ended September 30, 2018 and 2017, respectively.

<u>(In millions)</u>	<u>Three Months Ended</u>		
	<u>September 30,</u>		
	<u>2018</u>	<u>2017</u>	<u>Change</u>
Production costs	\$ 20.4	\$ 15.0	\$ 5.4
Personnel expenses	5.4	3.0	2.4
Facility and support expenses	3.1	2.2	0.9
Stock-based compensation	1.0	0.5	0.5
Other cost of sales	0.1	—	0.1
Total cost of sales expenses	<u>\$ 30.0</u>	<u>\$ 20.7</u>	<u>\$ 9.3</u>

  

<u>(In millions)</u>	<u>Nine Months Ended</u>		
	<u>September 30,</u>		
	<u>2018</u>	<u>2017</u>	<u>Change</u>
Production costs	\$ 54.9	\$ 40.5	\$ 14.4
Personnel expenses	14.4	8.1	6.3
Facility and support expenses	7.8	5.7	2.1
Stock-based compensation	2.5	1.2	1.3
Other cost of sales	0.2	0.2	—
Total cost of sales expenses	<u>\$ 79.8</u>	<u>\$ 55.7</u>	<u>\$ 24.1</u>

**Research and development expenses** . Research and development expenses increased to \$17.6 million for the three months ended September 30, 2018 compared to \$11.7 million for the three months ended September 30, 2017. Research and development expenses increased to \$47.3 million for the nine months ended September 30, 2018 compared to \$29.5 million for the nine months ended September 30, 2017. The increase in research and development expenses was

primarily due to an increase in personnel costs and stock-based compensation due to an increased headcount and an increase in direct research and development expenses for our pipeline.

<b>(In millions)</b>	<b>Three Months Ended September 30,</b>		
	<b>2018</b>	<b>2017</b>	<b>Change</b>
Direct research and development expenses	\$ 7.1	\$ 4.7	\$ 2.4
Personnel expenses	4.8	3.8	1.0
Stock-based compensation	3.1	2.1	1.0
Other research and development	1.6	0.6	1.0
Legal and professional fees	1.0	0.5	0.5
Total research and development expenses	<u>\$ 17.6</u>	<u>\$ 11.7</u>	<u>\$ 5.9</u>

<b>(In millions)</b>	<b>Nine Months Ended September 30,</b>		
	<b>2018</b>	<b>2017</b>	<b>Change</b>
Direct research and development expenses	\$ 19.4	\$ 11.8	\$ 7.6
Personnel expenses	13.7	10.1	3.6
Stock-based compensation	7.9	4.4	3.5
Other research and development	4.0	1.7	2.3
Legal and professional fees	2.3	1.5	0.8
Total research and development expenses	<u>\$ 47.3</u>	<u>\$ 29.5</u>	<u>\$ 17.8</u>

**General and administrative expenses** . General and administrative expenses increased to \$46.7 million for the three months ended September 30, 2018 compared to \$30.8 million for the three months ended September 30, 2017. General and administrative expenses increased to \$121.9 million for the nine months ended September 30, 2018 compared to \$75.4 million for the nine months ended September 30, 2017. The increase in general and administrative expenses was primarily a result of increased personnel costs, facility and support costs, and stock-based compensation to support the overall growth of the Company.

<b>(In millions)</b>	<b>Three Months Ended September 30,</b>		
	<b>2018</b>	<b>2017</b>	<b>Change</b>
Personnel expenses	\$ 15.9	\$ 11.5	\$ 4.4
Facility and support expenses	10.5	6.4	4.1
Stock-based compensation	9.0	5.7	3.3
Professional and legal fees	9.0	5.3	3.7
Other general and administrative	2.3	1.9	0.4
Total general and administrative expenses	<u>\$ 46.7</u>	<u>\$ 30.8</u>	<u>\$ 15.9</u>

<b>(In millions)</b>	<b>Nine Months Ended September 30,</b>		
	<b>2018</b>	<b>2017</b>	<b>Change</b>
Personnel expenses	\$ 44.6	\$ 28.3	\$ 16.3
Professional and legal fees	18.6	15.8	2.8
Facility and support expenses	27.5	13.4	14.1
Stock-based compensation	25.1	12.8	12.3
Other general and administrative	6.1	5.1	1.0
Total general and administrative expenses	<u>\$ 121.9</u>	<u>\$ 75.4</u>	<u>\$ 46.5</u>

**Sales and marketing expenses**. Sales and marketing expenses increased to \$64.8 million for the three months ended September 30, 2018 compared to \$37.8 million for the three months ended September 30, 2017. Sales and marketing expenses increased to \$172.7 million for the nine months ended September 30, 2018 compared to \$113.3 million for the nine months ended September 30, 2017. The increase in sales and marketing expenses was primarily a result of hiring

additional sales and marketing personnel and increasing our advertising and patient marketing efforts as part of the ongoing commercialization of our Cologuard test.

(In millions)	Three Months Ended September 30,		
	2018	2017	Change
Direct marketing costs and professional fees	\$ 32.8	\$ 19.2	\$ 13.6
Personnel expenses	27.3	16.5	10.8
Stock-based compensation	3.4	1.8	1.6
Other sales and marketing	1.3	0.3	1.0
Total sales and marketing expenses	\$ 64.8	\$ 37.8	\$ 27.0

(In millions)	Nine Months Ended September 30,		
	2018	2017	Change
Direct marketing costs and professional fees	\$ 87.9	\$ 56.4	\$ 31.5
Personnel expenses	72.9	51.3	21.6
Stock-based compensation	9.1	4.6	4.5
Other sales and marketing	2.8	1.0	1.8
Total sales and marketing expenses	\$ 172.7	\$ 113.3	\$ 59.4

**Investment income.** Investment income increased to \$6.3 million for the three months ended September 30, 2018 compared to \$1.3 million for the three months ended September 30, 2017. Investment income increased to \$14.9 million for the nine months ended September 30, 2018 compared to \$2.6 million for the nine months ended September 30, 2017. The increase in investment income was due to an increase in the average cash and marketable securities balance and an increase in the average rate of return on investments for the three and nine months ended September 30, 2018 when compared to the same periods in 2017.

**Interest expense.** Net interest expense of \$10.7 million was realized for the three months ended September 30, 2018 compared to net interest expense of \$0.1 million for the three months ended September 30, 2017. Net interest expense of \$25.8 million was realized for the nine months ended September 30, 2018 compared to net interest expense of \$0.2 million for the nine months ended September 30, 2017. We issued \$690.0 million and \$218.5 million of convertible debt in January 2018 and June 2018, respectively, which resulted in \$10.7 million and \$25.7 million in interest expense during the three and nine months ended September 30, 2018, respectively. \$8.4 million and \$20.2 million of interest expense relates to amortization of debt discount and debt issuance costs for the three and nine months ended September 30, 2018, respectively. The remaining \$2.3 million and \$5.5 million of interest expense for the three and nine months ended September 30, 2018, respectively, relates to the stated interest which will be paid in cash during the year. There was minimal interest expense for the three and nine months ended September 30, 2018 related to the mortgage on one of our facilities in Madison, Wisconsin which was entered into in June 2015. The interest expense for the three and nine months ended September 30, 2017 is related solely to the mortgage on one of our facilities in Madison, Wisconsin which was entered into in June 2015.

### **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 Cologuard. As of September 30, 2018, we had approximately \$161.7 million in cash and cash equivalents and approximately \$1.0 billion in marketable securities.

All 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 \$68.1 million for the nine months ended September 30, 2018 compared to \$71.0 million for the nine months ended September 30, 2017. The principal use of cash in operating activities for the nine months ended September 30, 2018 and 2017 was to fund our net loss.

Net cash used in investing activities was \$772.5 million for the nine months ended September 30, 2018 compared to \$185.5 million for the nine months ended September 30, 2017. The increase in cash used in investing activities for the nine months ended September 30, 2018 compared to the same period in 2017 was primarily the result of the timing of purchases and maturities of marketable securities following our convertible debt offerings. Excluding the impact of purchases and maturities of marketable securities, net cash used in investing activities was \$98.1 million for the nine months ended September 30, 2018. Cash use consisted of purchases of property and equipment of \$98.0 million and \$0.1 million of internally developed software. For the same period in 2017, there were purchases of property and equipment of \$24.4 million and purchases of intangible assets of \$8.4 million. The increase in purchases of property and equipment during the nine months ended September 30, 2018 was primarily the result of increased laboratory equipment purchases, computer equipment and computer software purchases, and assets under construction in order to continue to scale-up our operations for future expected growth of our Cologuard business.

Net cash provided by financing activities was \$924.8 million for the nine months ended September 30, 2018 compared to \$258.2 million for the nine months ended September 30, 2017. The increase in cash provided by financing activities for the nine months ended September 30, 2018 compared to the same period in 2017 was primarily the result of proceeds from our offerings of convertible debt in January 2018 and June 2018. Excluding the impact of proceeds from our convertible debt offerings, we received proceeds of \$17.3 million from drawing on our construction loan and \$6.8 million in consideration received for the sale of our research and development facility which is recorded as a financing obligation during the nine months ended September 30, 2018. The proceeds from our convertible debt offerings, construction loan and sale of our research and development facility were offset slightly by the payoff of the mortgage on our research and development facility. The cash provided by financing activities for the nine months ended September 30, 2017 was primarily the result of proceeds from our issuance of common stock in an underwritten public offering in June 2017.

We expect that cash and cash equivalents and marketable securities on hand at September 30, 2018 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 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 additional funds, we cannot assure that our business will ever generate sufficient cash flow from operations to become profitable.

A table of our specified contractual obligations as of December 31, 2017 was provided in the Management's Discussion and Analysis of Financial Condition and Results of Operation of our 2017 Form 10-K. During the nine months ended September 30, 2018, there were several material updates to this table as follows:

- During January 2018 and June 2018, we issued \$690.0 million and \$218.5 million, respectively, in aggregate principal amount of 1.0% Convertible Notes that will mature on January 15, 2025. The holders of the Notes may convert prior to July 15, 2024 only under certain circumstances and may convert at any time after July 15, 2024. See Note 10 of the condensed consolidated financial statements of this Quarterly Report for further details.
- In August 2018, we entered into a Promotion Agreement with Pfizer. Under the terms of the agreement, we are contractually obligated to make an initial minimum payment of \$22.5 million on June 30, 2019 and will begin making semi-annual minimum payments of \$15 million on December 31, 2019 through the initial termination date of December 31, 2021. See Note 4 of the condensed consolidated financial statements of this Quarterly Report for further details.
- In September 2018, we entered into a Master Lease Agreement ("Master Lease") with a third party for a building currently being constructed. We anticipate occupying and making lease payments beginning in March 2020. The initial lease term of 15 years extends to an expected term date of February 2035, and future minimum lease payments total approximately \$50.3 million.
- In September 2018, we sold our research and development facility and used the proceeds from the sale to repay the outstanding balance of the mortgage of \$4.5 million as further discussed in Note 8 of the condensed consolidated financial statements of this Quarterly Report. The mortgage was set to mature in

June 2019. We simultaneously entered into the Master Lease with the third-party to lease back the research and development facility. We will make payments of approximately \$0.1 million monthly during the first lease year with 3 percent escalations annually thereafter. Total future minimum lease payments will be approximately \$18.8 million through the initial lease term of 15 years.

- As part of the Master Lease entered into in September 2018, we extended the lease term on one of our facilities in Madison, Wisconsin from October 2021 to February 2025 resulting in additional minimum lease payments of approximately \$2.1 million.
- In the nine months ended September 30, 2018, we received \$17.3 million in proceeds from drawing on our construction loan. We will begin making payments in December 2019 on the outstanding principal balance due plus accrued interest, and the maturity date of the construction loan is December 10, 2022. See Note 8 of the condensed consolidated financial statements of this Quarterly Report for further details.

With the exception of the items discussed above, there were no material changes outside the ordinary course of our business in the specified contractual obligations during the nine months ended September 30, 2018.

### ***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.

While our significant accounting policies are more fully described in Note 2 of our financial statements included in our 2017 Form 10-K, we believe that the following accounting policies and judgments are most critical to aid in fully understanding and evaluating our reported financial results.

#### ***Revenue Recognition***

***Laboratory service revenue.*** Our laboratory service revenues are generated from laboratory services using our Cologuard test, and the service is completed upon delivery of a patient's test result to the ordering physician. We account for revenue in accordance with Accounting Standards Codification Topic 606, *Revenue from Contracts with Customers* ("ASC 606"), which we adopted on January 1, 2018, using the modified retrospective method, which we elected to apply to all contracts. Application of the modified retrospective method did not impact amounts previously reported by us, nor did it require a cumulative effect adjustment upon adoption, as our method of recognizing revenue under ASC 606 was analogous to the method utilized immediately prior to adoption. Accordingly, there is no need for us to disclose the amount by which each financial statement line item was affected as a result of applying the new standard and an explanation of significant changes.

The core principle of ASC 606 is that we recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which we expect to be entitled in exchange for those goods or

services. We recognize revenue in accordance with that core principle, and key aspects considered include the following:

#### *Contracts*

Our customer is the patient. However, we do not enter into a formal reimbursement contract with a patient, as formal reimbursement contracts, including national coverage determination, are established with payers. Accordingly, we establish a contract with a patient in accordance with other customary business practices.

- Approval of a contract is established via the order submitted by the patient's physician and the return of a sample by the patient.
- We are obligated to perform its laboratory services upon receipt of a sample from a patient, and the patient and/or applicable payer are obligated to reimburse us 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 us and payers, unless the patient is a self-pay patient, whereby we require payment from the patient prior to us shipping a collection kit to the patient.
- Once we deliver a patient's test result to the ordering physician the contract with a patient has commercial substance, as we are legally able to collect payment and bill an insurer and/or patient, depending on payer contract status or patient insurance benefit status.
- Our consideration is deemed to be variable, and we consider 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. Our contracts have a single performance obligation, which is satisfied upon rendering of services, which culminates in the delivery of a patient's Cologuard test result to the ordering physician. The duration of time between sample receipt and delivery of a valid test result to the ordering physician is typically less than two weeks. Accordingly, we elect the practical expedient and therefore, we do not disclose the value of unsatisfied performance obligations.

#### *Transaction price*

The transaction price is the amount of consideration that we expect 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 our contracts is deemed to be variable, though the variability is not explicitly stated in any contract. Rather, the implied variability is due to several factors, such as the amount of contractual adjustments, any patient co-payments, deductibles or compliance incentives, the existence of secondary payers and claim denials.

We estimate 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.

We limit the amount of variable consideration included in the transaction price to the unconstrained portion of such consideration. In other words, we recognize 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 \$2.4 million and \$14.2 million for the three and nine months ended September 30, 2018.

We monitor our estimates of transaction price to depict conditions that exist at each reporting date. If we subsequently determine that we will collect more consideration than we originally estimated for a contract with a patient, we will account for the change as an increase in the estimate of the transaction price (i.e., an upward revenue adjustment) in the period identified. Similarly, if we subsequently determine that the amount we expect to collect from a patient is less than we originally estimated, we will generally account for the change as a decrease in the estimate of the transaction price (i.e., a downward revenue adjustment), provided that such downward adjustment does not result in a significant reversal of cumulative revenue recognized.

When we do 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 delivery of a patient's Cologuard test result to the ordering physician, with recognition generally occurring at the date of cash receipt. Since the first quarter of 2017, we determined that our historical experience has sufficient predictive value, such that there are no longer any contracts for which no revenue is recognized upon delivery of a Cologuard test result to an ordering physician. Of the revenue recognized in the twelve months ended December 31, 2017, approximately \$4.3 million relates to the one-time impact of certain payers meeting our revenue recognition criteria for accrual-basis revenue recognition beginning with the period ended March 31, 2017. Approximately \$1.0 million of this one-time impact relates to tests completed in the prior year and for which our accrual revenue recognition criteria were not met until 2017.

*Allocate transaction price*

The entire transaction price is allocated to the single performance obligation contained in a contract with a patient.

*Point in time recognition*

Our single performance obligation is satisfied at a point in time, and that point in time is defined as the date a patient's successful test result is delivered to the patient's ordering physician. We consider this date to be the time at which the patient obtains control of the promised Cologuard test service.

*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 delivery of a patient's test result to the ordering physician, resulting in an account receivable. However, we sometimes receive advance payment from a patient, particularly a self-pay patient, before a Cologuard test result is completed, resulting in deferred revenue. The deferred revenue balance is relieved upon delivery of the applicable patient's test result to the ordering physician. Changes in accounts receivable and deferred revenue were not materially impacted by any other factors.

Deferred revenue balances are reported in other short-term liabilities on our condensed consolidated balance sheets and were \$0.5 million and \$0.2 million as of September 30, 2018 and December 31, 2017, respectively.

Revenue recognized for the three months ended September 30, 2018 and 2017, which was included in the deferred revenue balance at the beginning of each period was \$0.1 million and \$38,000, respectively. Revenue recognized for the nine months ended September 30, 2018 and 2017, which was included in the deferred revenue balance at the beginning of each period was \$0.1 million and \$44,000, respectively.

*Practical expedients*

We do not adjust the transaction price for the effects of a significant financing component, as at contract inception, we expect the collection cycle to be one year or less.

We expense sales commissions when incurred because the amortization period would have been one year or less. These costs are recorded within sales and marketing expenses on our condensed consolidated statements of operations.

We incur 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. compliance reminder letters). These costs are expensed as incurred and recorded within general and administrative expenses on our condensed consolidated statements of operations.

**Inventory.** Inventory is stated at the lower of cost or market value (net realizable value). We determine the cost of inventory using the first-in, first out method (“FIFO”). We estimate the recoverability of inventory by reference to internal estimates of future demands and product life cycles, including expiration. We periodically analyze our inventory levels to identify inventory that may expire prior to expected sale or has a cost basis in excess of its estimated net realizable value, and record a charge to cost of sales for such inventory as appropriate. In addition, the materials used in performing our Cologuard tests are subject to strict quality control and monitoring which we perform throughout the manufacturing process. If certain batches or units of product no longer meet quality specifications or become obsolete due to expiration, we record a charge to cost of sales to write down such unmarketable inventory to its estimated net realizable value.

Direct and indirect manufacturing costs incurred during process validation and for other research and development activities, which are not permitted to be sold, have been expensed to research and development on our condensed consolidated statements of operations.

**Stock-Based Compensation.** In accordance with GAAP, all stock-based payments, including grants of employee stock options, restricted stock and restricted stock units, market measure-based awards and shares purchased under an employee stock purchase plan (“ESPP”) (if certain parameters are not met), are recognized in the financial statements based on their fair values. The grant date fair value of market measure-based share-based compensation plans are calculated using a Monte Carlo simulation pricing model. The following assumptions are used in determining fair value for stock options, restricted stock and ESPP shares:

- **Valuation and Recognition** — The fair value of each option award is estimated on the date of grant using the Black-Scholes option pricing model. The fair value of each market measure-based award is estimated on the date of grant using a Monte Carlo simulation 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 issued to non-employees, the measurement date is the date when the performance is complete or when the award vests, whichever is the earliest. Accordingly, non-employee awards are re-measured at each reporting period until the final measurement date. The fair value of the award is recognized as stock-based compensation expense over the requisite service period, generally the vesting period. The Black-Scholes and Monte Carlo pricing models utilize the following assumptions:
  - **Expected Term** - Expected term is based on our historical life data and is determined using the average of the vesting period and the contractual life of the stock options granted. Expected life of a market measure-based award is based on the applicable performance period.
  - **Expected Volatility** - Expected volatility is based on our historical stock volatility data over the expected term of the awards.
  - **Risk-Free Interest Rate** – We base the risk-free interest rate used in the Black-Scholes and Monte Carlo valuation models on the implied yield currently available on U.S. Treasury zero-coupon issues with an equivalent expected term.
  - **Forfeitures** – Beginning in 2017, we adopted Accounting Standards Update (“ASU”) No. 2016-09, *Compensation – Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting* (“Update 2016-09”). With the adoption of Update 2016-09, forfeiture estimates are no longer required, and the effects of actual forfeitures are recorded at the time they occur. The impact on our condensed consolidated balance sheet as of March 31, 2017 was a cumulative-effect adjustment of \$0.4 million, increasing opening accumulated deficit and additional paid-in capital.

The fair value of each award is estimated on the date of grant based on the assumptions noted above and as further described in Note 5 to our condensed consolidated financial statements.

**Convertible Debt.** 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 January 2018 and June 2018, we issued \$690.0 million and \$218.5 million, respectively, in aggregate principal amount of 1.0% Convertible Notes with a maturity date of January 15, 2025 (the “Notes”). We determined the carrying amount of the liability component of the 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 estimate 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 January 2018 offering, we allocated \$194.9 million 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 seven-year term of the Notes using the effective interest rate method. For the June 2018 offering, we allocated \$73.0 million to the equity component of the convertible debt instrument. That equity component, less the \$14.2 million premium, is treated as a discount on the liability component of the Notes, which is amortized over the remaining six-and-a-half-year term of the Notes using the effective interest rate method. In addition, debt issuance costs related to the Notes were \$18.8 million and \$7.4 million for the January 2018 and June 2018 offerings, respectively. We allocated the costs to the liability and equity components of the Notes based on their relative values. The debt issuance costs allocated to the liability component are being amortized over the life of the 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.

### Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. We adopted this guidance on January 1, 2018. See Note 2 for additional discussion.

In January 2016, the Financial Accounting Standards Board issued ASU No. 2016-01, “*Financial Instruments – Overall: Recognition and Measurement of Financial Assets and Financial Liabilities*” (“Update 2016-01”). Update 2016-01 modifies how entities measure equity investments and present changes in the fair value of financial liabilities. Under the new guidance, entities will have to measure equity investments that do not result in consolidation and are not accounted for under the equity method at fair value and recognize any changes in fair value in net income unless the investments qualify for the new practicality exception. A practicality exception will apply to those equity investments that do not have readily determinable fair value and do not qualify for the practical expedient to estimate fair value under ASC 820, “Fair Value Measurements,” and as such these investments may be measured at cost. Update 2016-01 will be effective for the fiscal year beginning January 1, 2018, and subsequent interim periods. Update 2016-01 was further amended in February 2018 by ASU No. 2018-03, *Technical Corrections and Improvements to Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*, (“Update 2018-03”). Update 2018-03 clarifies certain aspects of the guidance issued in Update 2016-01. Public business entities with fiscal years beginning between December 15, 2017 and June 15, 2018, are not required to adopt these amendments until the interim period beginning after June 15, 2018. Early adoption is allowed as long as Update 2016-01 has been adopted. We adopted Update 2016-01 on January 1, 2018, and it did not have an impact on our condensed consolidated financial statements.

In February 2016, the Financial Accounting Standards Board issued ASU No. 2016-02, *Leases (Topic 842)*, (“Update 2016-02”) which requires recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases under previous GAAP. The amendments in this update are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. In transition, lessees and lessors are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. We will adopt the guidance in 2019. We are currently evaluating the effects that the adoption of Update 2016-02 will have on our condensed consolidated financial statements; however, as we have several leases, assets and liabilities are expected to increase upon adoption for right-of-use assets and lease liabilities.

## [Table of Contents](#)

In August 2016, the Financial Accounting Standards Board issued ASU No. 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*, (“Update 2016-15”). Current GAAP either is unclear or does not include specific guidance on the eight cash flow classification issues included in the amendments in Update 2016-15. The amendments are an improvement to GAAP because they provide guidance for each of the eight issues, thereby reducing the current and potential future diversity in practice. We adopted this guidance on January 1, 2018, and it did not have an impact on our statements of cash flows.

In October 2016, the Financial Accounting Standards Board issued ASU No. 2016-16, *Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory*, (“Update 2016-16”). This amendment improves the accounting for the income tax consequences of intra-entity transfers of assets other than inventory. We adopted this guidance on January 1, 2018, and it did not have an impact on our condensed consolidated financial statements.

In November 2016, the Financial Accounting Standards Board issued ASU No. 2016-18, *Statement of Cash Flows: Restricted Cash*, (“Update 2016-18”). Update 2016-18 provides guidance on the classification of restricted cash in the statement of cash flows. We adopted this guidance on January 1, 2018, and it did not have an impact on our condensed consolidated financial statements, as we do not have restricted cash.

In May 2017, the Financial Accounting Standards Board issued ASU No. 2017-09, *Compensation – Stock Compensation (Topic 718): Scope of Modification Accounting*, (“Update 2017-09”). Update 2017-09 provides guidance on determining which changes to the terms and conditions of share-based payment awards require an entity to apply modification accounting under Topic 718. We adopted this guidance on January 1, 2018, and it did not have an impact on our condensed consolidated financial statements.

In June 2018, the Financial Accounting Standards Board issued ASU No. 2018-07 (Topic 718), *Improvements to Nonemployee Share-Based Payment Accounting*, (“Update 2018-07”). Update 2018-07 expands the scope of Topic 718 to include share-based payment transactions for acquiring goods and services from nonemployees. An entity should apply the requirements to Topic 718 to nonemployee awards except for certain exemptions specified in the amendment. The guidance is effective for fiscal years beginning after December 15, 2018, including interim reporting periods within that fiscal year. Early adoption is permitted, but no earlier than an entity’s adoption of Topic 606. We are currently evaluating the impact of the guidance on our condensed consolidated financial statements.

In July 2018, the Financial Accounting Standards Board issued ASU 2018-09, *Codification Improvements*, (“Update 2018-09”). Update 2018-09 provided various minor codification updates and improvements to address comments that the FASB had received regarding unclear or vague accounting guidance. The guidance is effective for fiscal years beginning after December 15, 2018, including interim reporting periods within that fiscal year. We are currently evaluating the impact of the guidance on our condensed consolidated financial statements, and do not anticipate it to have a material impact.

In July 2018, the Financial Accounting Standards Board issued ASU 2018-11, *Leases (Topic 842); Targeted Improvements*, (“Update 2018-11”). Update 2018-11 provided companies an alternative adoption method of ASU 2016-02 discussed above, by providing an option of recognizing a cumulative-effect adjustment to the opening balance of retained earnings upon adoption. We will adopt ASU 2018-11 in fiscal year 2019, and we are currently evaluating the impact of this guidance on our condensed consolidated financial statements.

In August 2018, the Financial Accounting Standards Board issued ASU 2018-13, *Fair Value Measurement (Topic 820); Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement*, (“Update 2018-13”). Update 2018-13 provided an update to the disclosure requirements for fair value measurements under the scope of ASC 820. The guidance is effective for fiscal years beginning after December 15, 2019. We are currently evaluating the impact of the guidance on our condensed consolidated financial statements.

### **Off-Balance Sheet Arrangements**

As of September 30, 2018, we had no off-balance sheet arrangements.

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

Market risk represents the risk of loss that may result from the change in value of financial instruments due to fluctuations in their market price. Market risk is inherent in all financial instruments. 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. government and its agencies and in investment-grade, highly liquid investments consisting of commercial paper, bank certificates of deposit, asset backed securities and corporate bonds, which, as of September 30, 2018 were classified as available-for-sale. We place our cash equivalents 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.

The primary quantifiable market risk associated with our financial instruments is sensitivity to changes in interest rates. Interest rate risk represents the potential loss from adverse changes in market interest rates. Due to the nature of the financial instruments we hold, we believe there is no material exposure to interest rate risk arising from our portfolio of financial instruments.

Our assets and liabilities are denominated in U.S. dollars. Consequently, we have not considered it necessary to use foreign currency contracts or other derivative instruments to manage changes in currency rates. We do not now, nor do we plan to, use derivative financial instruments for speculative or trading purposes. However, these circumstances might change.

### **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 September 30, 2018, 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.

During the fiscal quarter covered by this report, there have been no significant changes in internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## **Part II - Other Information**

### **Item 1. Legal Proceedings**

We are not currently a party to any pending legal proceedings that we believe will have a material adverse effect on our business, financial condition or results of operations. We may, however, be subject to various claims and legal actions arising in the ordinary course of business from time to time .

### **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” on the 2017 Form 10-K. Other than the factors set forth below, there have been no material changes to the risk factors described in the 2017 Form 10-K.

***We have entered into a Promotion Agreement with Pfizer regarding the commercialization of Cologuard. If we or Pfizer fail to adequately perform under the Promotion Agreement, or if the Promotion Agreement is terminated prior to its full term, our business, prospects, financial condition and results of operation could be adversely affected.***

In August 2018 we entered into a Promotion Agreement (“Promotion Agreement”) with Pfizer Inc. (“Pfizer”), pursuant to which Pfizer will promote Cologuard and provide certain other sales and marketing services. We and Pfizer committed in the Promotion Agreement to invest specified amounts in the advertising and promotion of Cologuard. We are obligated to pay Pfizer a promotion fee based on incremental gross profits over specified baselines and pay Pfizer 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 Promotion Agreement may be terminated for cause immediately by us or Pfizer (subject to up to a sixty day cure period for the breaching party), may be terminated by either party at any time on or after February 21, 2020 upon six months’ written notice to the other party, and by both parties upon mutual agreement.

We have dedicated significant time and resources to negotiating and implementing our Promotion Agreement with Pfizer. The growth in Cologuard revenue we anticipate to result from the Promotion Agreement may not occur. We may not realize the expected benefits from the Promotion Agreement for a number of reasons including, among others, if we and Pfizer fail to coordinate our sales and marketing efforts effectively, if Pfizer fails to effectively promote, market and sell Cologuard or otherwise fails to perform under the Promotion Agreement, or if the Promotion Agreement is terminated before its anticipated benefits can be fully realized. Our relationship with Pfizer is new, we have limited experience executing under co-promotion agreements and Pfizer has limited experience promoting molecular diagnostic products. Our strategic partnership with Pfizer will impact the development of our own sales and marketing capabilities, both for Cologuard and other products in our pipeline. If we do not realize the expected benefits from the Promotion Agreement, either because Pfizer’s marketing strategy and sales and marketing expertise do not translate well to the promotion of Cologuard or for any other reason, our business, prospects, financial condition and results of operation may be adversely affected.

### **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.

<b>Exhibit Number</b>	<b>Description</b>
3.1	<a href="#">Sixth Amended and Restated Certificate of Incorporation of the Registrant (previously filed as Exhibit 3.3 to the Registrant's Registration Statement on Form S - 1 (File No. 333 - 48812), filed on October 27, 2000, and incorporated herein by reference)</a>
3.2	<a href="#">First Amendment to Sixth Amended and Restated Certificate of Incorporation of the Registrant (previously filed as Appendix B to the Definitive Proxy Statement for the Company's 2014 Annual Meeting of Stockholders, filed on June 20, 2014, and incorporated herein by reference)</a>
3.3	<a href="#">Third Amended and Restated By-Laws of the Registrant (previously filed as Exhibit 3.3 to the Registrant's Quarterly Report on Form 10-Q for the period ended September 30, 2017, and incorporated herein by reference)</a>
10.1	<a href="#">Promotion Agreement dated August 21, 2018 between the Registrant and Pfizer Inc. (previously filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on August 22, 2018, and incorporated herein by reference)</a>
10.2+*	<a href="#">Employment Agreement dated April 2, 2018 between the Registrant and Mark Stenhouse</a>
31.1+	<a href="#">Certification Pursuant to Rule 13(a)-14(a) or Rule 15d-14(a) of Securities Exchange Act of 1934</a>
31.2+	<a href="#">Certification Pursuant to Rule 13(a)-14(a) or Rule 15d-14(a) of Securities Exchange Act of 1934</a>
32.1+	<a href="#">Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</a>
101+	Interactive Data Files

---

+ Filed herewith

\* 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: October 30, 2018

By: /s/ Kevin T. Conroy  
Kevin T. Conroy  
President and Chief Executive Officer  
( *Principal Executive Officer* )

Date: October 30, 2018

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 04/02/2018 (the “ **Effective Date** ”), by and between Mark Stenhouse (“ **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 President, Cologuard, 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 President, Cologuard, 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. 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. 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 shall 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 the Effective Date is five hundred thousand dollars (\$500,000.00), 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. 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 Annual Bonus Compensation. Employee shall be eligible to be considered for an annual, discretionary cash bonus each calendar year. Employee's target annual bonus percentage for each calendar year shall be fifty percent (50%) of his or her Base Salary as of January 1 of the applicable new calendar year. Employee acknowledges that any such annual 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, an annual 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 bonus. If an annual 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.

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) Effective 04/02/2018 Employee shall receive an initial grant of seventy-five thousand (75,000) restricted stock units (the " **Initial RSUs** ") under and subject to the Company's 2010 Omnibus Long-Term Incentive Plan, as amended, to be settled in shares of the Company's common stock. One-third (1/3)

of the shares underlying the Initial RSUs shall vest and become payable on the first anniversary of the date of grant and annually thereafter, commencing on the first anniversary of the grant date, subject to the acceleration of vesting and payment (i) as described in **Section 6.3** below, (ii) as described in **Section 7.1(d)** and **Section 7.2(b)** below, 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.

3.4 Signing bonus. Employee shall be eligible to receive a cash signing bonus of eight hundred and forty thousand dollars (\$840,000), to be paid in equal installments on the first and second anniversaries of the date Employee's employment with the Company begins (the "**Start Date**"). Employee must not have incurred a Separation from Service before the applicable payment date to remain eligible to receive any portion of the signing bonus.

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 Vacation and Personal Time. The Company shall provide Employee with four (4) weeks of paid vacation and other personal time off each calendar year Employee is employed by the Company, in accordance with Company policy. The foregoing vacation and personal time off days shall be in addition to standard paid holiday days for employees of the Company. Employee shall not be permitted to accrue more than four (4) weeks of paid vacation or other personal time off.

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 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 of the Company or any of its Affiliates. 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.

4.5 Relocation Expenses. Company shall pay Employee two-hundred and fifty thousand dollars (\$250,000) (the "**Relocation Payment**") to reimburse Employee for Employee's relocation expenses associated with his or her move to Wisconsin in connection with his or her employment by the Company. The Relocation Payment shall be paid within thirty (30) days of the Start Date. If Employee incurs actual, reasonable and customary relocation expenses within one (1) year after the Start Date that exceed the Relocation Payment (for items such as real estate commissions and other closing costs relating to the sale of Employee's current house, storage of Employee's household goods for a maximum of six (6) months while Employee and his or her family are in temporary housing, etc.) (collectively, the "**Excess Relocation Expenses**"), Employee may provide the Company's SVP of Human Resources with documentation of such Excess Relocation Expenses for review by the CEO, and the CEO may elect, in his discretion, to reimburse Employee for all or part or none of such Excess Relocation Expenses. In addition, the Company agrees to provide Employee with a payment equal to two percent (2%) of the final sale price of his current primary residence upon Employee's successful sale and closure on such primary residence if such sale and closure is completed within six (6) months of the Start Date (the "**Home Sale Payment**"). The Home Sale Payment shall be paid within thirty (30) days of the sale and closure of the home subject to Employee's submittal of documentation of the final sale closure. In addition to the Relocation Payment, Home Sale Payment and Excess Relocation Expenses (if any), Company shall reimburse Employee for the reasonable cost of temporary housing in Wisconsin and reasonable, occasional travel back to Employee's house as of the Start Date for up to six (6) months after the Start Date and shall reimburse Employee for the reasonable expenses associated with two (2) house-hunting trips by Employee and his or her spouse. Reimbursement of such costs and expenses shall be made within thirty (30) days of Employee's incurring the costs and expenses, subject to Employee's providing reasonable documentation of the reimbursable costs and expenses. Employee agrees that if Employee initiates Employee's Separation from Service without Good Reason (as defined below) at any time within twelve (12) months of the Start Date, Employee shall repay all payments made to him or her pursuant to this **Section 4.5** (including without limitation the Relocation Payment, any Excess Relocation Expenses and the Home Sale Payment) within thirty (30) days of the Separation from Service. Employee further agrees that if Employee fails to relocate his or her primary residence to Wisconsin within six (6) months of the Start Date, he or she shall repay the Relocation Payment, any Excess Relocation Expenses and any Home Sale Payment.

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.

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 pay compensation to Employee, including benefits, 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 thirty percent (30%) 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 fifty (50) 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;

(ii) 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;

(iii) Employee’s commission of any fraud or embezzlement in connection with Employee’s duties or committed in the course of Employee’s employment;

(iv) 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;

(v) Employee’s conviction of, or plea of guilty or nolo contendere to, a felony or other crime involving moral turpitude;

(vi) 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;

(vii) Employee’s willful and material violation of any statutory or common law duty of loyalty to the Company or any of its Affiliates; or

(viii) Employee’s material breach of this Agreement, the Non-Disclosure and Invention Agreement or the Restrictive Covenant Agreement.

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 pay compensation to Employee, including benefits, 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 Restrictive Covenant 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 without 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, 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 Cause for Cause of 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 Employee Non-Disclosure and Invention Assignment Agreement in substantially the form attached hereto as **Exhibit A** (the "**Non-Disclosure and Invention Agreement**").

8.2 Restrictive Covenant 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 Employee Non-Competition, Non-Solicitation and No-Interference Agreement in substantially the form attached hereto as Exhibit B (the "Restrictive Covenant 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 Restrictive Covenant 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 Wisconsin 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/ Mark Stenhouse

Print name:  Mark Stenhouse

Notice address:

**EXACT SCIENCES CORPORATION**

Sign name:  /s/ Kevin T. Conroy

Print name:  Kevin T. Conroy

Title:  President and CEO

Notice address:

---

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 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: October 30, 2018

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 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: October 30, 2018

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 September 30, 2018 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  
Kevin T. Conroy  
President and Chief Executive Officer

October 30, 2018

/s/ Jeffrey T. Elliott  
Jeffrey T. Elliott  
Chief Financial Officer

October 30, 2018

---