EXACT SCIENCES CORP
Form 10-Q
May 03, 2013
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2013

OR

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

Commission File Number: 000-32179

EXACT SCIENCES CORPORATION

(Exact name of registrant as specified in its charter)

DELAWARE	**02-0478229**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
441 Charmany Drive, Madison WI	**53719**
(Address of principal executive offices)	(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 x No o

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

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

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

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

As of April 30, 2013, the registrant had 64,095,153 shares of common stock outstanding.

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Part I Financial Information

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EXACT SCIENCES CORPORATION

Condensed Balance Sheets

(Amounts in thousands, except share data - unaudited)

	March 31, 2013	December 31, 2012
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 8,053	$ 13,345
Marketable securities	87,429	94,776
Prepaid expenses and other current assets	1,067	593
Total current assets	96,549	108,714
Property and Equipment, at cost:		
Laboratory equipment	4,324	4,051
Office and computer equipment	855	824
Leasehold improvements	283	283
Furniture and fixtures	28	28
	5,490	5,186
Less Accumulated depreciation	(2,048)	(1,781)
	3,442	3,405
	$ 99,991	$ 112,119
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities:		
Accounts payable	$ 2,081	$ 3,652
Accrued expenses	3,345	3,327
Capital lease obligation, current portion	337	333
Deferred license fees, current portion	3,402	4,143
Total current liabilities	9,165	11,455
Long-term debt	1,000	1,000
Long-term accrued interest	68	63
Capital lease obligation, less current portion	625	711
Deferred license fees, less current portion		295
Commitments and contingencies		
Stockholders Equity:		
Preferred stock, $0.01 par value Authorized 5,000,000 shares Issued and outstanding no shares at March 31, 2013 and December 31, 2012		
Common stock, $0.01 par value Authorized 100,000,000 shares Issued and outstanding 64,093,730 and 63,909,800 shares at March 31, 2013 and December 31, 2012	641	639
Additional paid-in capital	373,520	372,123
Other comprehensive income	71	78
Accumulated deficit	(285,099)	(274,245)
Total stockholders equity	89,133	98,595
	$ 99,991	$ 112,119

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

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EXACT SCIENCES CORPORATION

Condensed Statements of Operations

(Amounts in thousands, except per share data - unaudited)

	Three Months Ended March 31,	
	2013	**2012**
License fees	1,036	1,036
Operating expenses:		
Research and development	7,526	8,999
General and administrative	2,648	2,145
Sales and marketing	1,759	594
	11,933	11,738
Loss from operations	(10,897)	(10,702)
Investment income	62	62
Interest expense	(19)	(5)
Net loss	$ (10,854)	$ (10,645)
Net loss per share basic and diluted	$ (0.17)	$ (0.19)
Weighted average common shares outstanding basic and diluted	63,836	56,718

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

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EXACT SCIENCES CORPORATION

Condensed Statements of Comprehensive Loss

(Amounts in thousands - unaudited)

	Three Months Ended March 31,	
	2013	**2012**
Net loss	$ (10,854)	$ (10,645)
Other comprehensive loss, net of tax		
Unrealized holding gain (loss) on available-for-sale investments	(7)	35
Comprehensive loss	$ (10,861)	$ (10,610)

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

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EXACT SCIENCES CORPORATION

Condensed Statements of Cash Flows

(Amounts in thousands, except share data - unaudited)

	Three Months Ended March 31,	
	2013	**2012**
Cash flows from operating activities:		
Net loss	$ (10,854)	$ (10,645)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation of property and equipment	314	202
Loss on disposal of property and equipment	25	
Stock-based compensation	955	1,035
Amortization of deferred license fees	(1,036)	(1,036)
Warrant licensing expense		27
Amortization of premium on short-term investments	140	104
Changes in assets and liabilities:		
Prepaid expenses and other current assets	(474)	(884)
Accounts payable	(1,571)	184
Accrued expenses	372	(195)
Accrued interest	5	5
Net cash used in operating activities	(12,124)	(11,203)
Cash flows from investing activities:		
Purchases of marketable securities	(9,231)	(29,963)
Maturities of marketable securities	16,431	16,230
Purchases of property and equipment	(376)	(195)
Net cash provided by (used in) investing activities	6,824	(13,928)
Cash flows from financing activities:		
Proceeds from exercise of common stock options and stock purchase plan	90	1,642
Payments on capital lease obligations	(82)	
Net cash provided by financing activities	8	1,642
Net decrease in cash and cash equivalents	(5,292)	(23,489)
Cash and cash equivalents, beginning of period	13,345	35,781
Cash and cash equivalents, end of period	$ 8,053	$ 12,292
Supplemental disclosure of non-cash investing and financing activities:		
Unrealized gain (loss) on available-for-sale investments	$ (7)	$ 35
Issuance of 30,534 and 32,872 shares of common stock to fund the Company s 401(k) matching contribution for 2012 and 2011, respectively	$ 354	$ 274

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

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EXACT SCIENCES CORPORATION

Notes to Condensed Financial Statements

(Unaudited)

(1) ORGANIZATION AND BASIS OF PRESENTATION

Organization

Exact Sciences Corporation (Exact, we, us or the Company) was incorporated in February 1995. Exact is a molecular diagnostics company focused on the early detection and prevention of colorectal cancer. The Company s non-invasive stool-based DNA (sDNA) screening technology includes proprietary and patented methods that isolate and analyze human DNA present in stool to screen for the presence of colorectal pre-cancer and cancer.

Basis of Presentation

The accompanying condensed financial statements of the Company 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, 2012 included in the Company s Annual Report on Form 10-K (the 2012 Form 10-K). These condensed 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 2012 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

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. The Company had no restricted cash at March 31, 2013 and December 31, 2012.

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, which approximates the effective interest 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 March 31, 2013 and December 31, 2012, 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

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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 three months ended March 31, 2013 and March 31, 2012. Realized gains were $2,169 and $2,528 for the three months ended March 31, 2013 and 2012, respectively. Unrealized gains or losses on investments are recorded in other comprehensive loss.

Available-for-sale securities at March 31, 2013 consist of the following:

	March 31, 2013			
(In thousands)	Amortized Cost	Gains in Accumulated Other Comprehensive Income	Losses in Accumulated Other Comprehensive Income	Estimated Fair Value
U.S. government agency securities	$ 33,700	$ 34	$	$ 33,734
Corporate bonds	47,498	23		47,521
Certificates of deposit	4,961	14		4,975
Commercial paper	1,199			1,199
Total available-for-sale securities	$ 87,358	$ 71	$	$ 87,429

Available-for-sale securities at December 31, 2012 consist of the following:

	December 31, 2012			
(In thousands)	Amortized Cost	Gains in Accumulated Other Comprehensive Income	Losses in Accumulated Other Comprehensive Income	Estimated Fair Value
U.S. government agency securities	$ 44,270	$ 38	$	$ 44,308
Corporate bonds	43,303	27		43,330
Certificates of deposit	5,926	13		5,939
Commercial paper	1,199			1,199
Total available-for-sale securities	$ 94,698	$ 78	$	$ 94,776

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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:

	March 31,	
(In thousands)	**2013**	**2012**
Shares issuable upon exercise of stock options	6,379	6,445
Shares issuable upon exercise of outstanding warrants (1)	240	325
Shares issuable upon the release of restricted stock awards	1,003	884
Shares issuable upon the vesting of restricted stock awards related to a licensing agreement	73	
	7,695	7,654

(1) At March 31, 2013, represents warrants to purchase 165,000 shares of common stock issued under a license agreement and warrants to purchase 75,000 shares of common stock issued under a consulting agreement. At March 31, 2012, represents warrants to purchase 250,000 shares of common stock issued under a license agreement and warrants to purchase 75,000 shares of common stock issued under a consulting agreement.

Revenue Recognition

License fees. License fees for the licensing of product rights are recorded as deferred revenue upon receipt of cash and recognized as revenue on a straight-line basis over the license period. As more fully described in the 2012 Form 10-K, in connection with our January 2009 strategic transaction with Genzyme Corporation, Genzyme agreed to pay us a total of $18.5 million, of which $16.65 million was paid on January 27, 2009 and $1.85 million was subject to a holdback by Genzyme to satisfy certain potential indemnification obligations in exchange for the assignment and licensing of certain intellectual property to Genzyme. The Company s on-going performance obligations to Genzyme under the Collaboration, License and Purchase Agreement (the CLP Agreement), as described below, including its obligation to deliver through licenses certain intellectual property improvements to Genzyme, if improvements are made during the initial five-year collaboration period, were deemed to be undelivered elements of the CLP Agreement on the date of closing. Accordingly, the Company deferred the initial $16.65 million in cash received at closing and is amortizing that up-front payment on a straight-line basis into revenue over the initial five-year collaboration period ending in January 2014. The Company received the first holdback amount of $962,000, which included accrued interest due, from Genzyme during the first quarter of 2010. The Company received the second holdback amount of $934,250, which included accrued interest due, from Genzyme during the third quarter of 2010. The amounts were deferred and are being amortized on a straight-line basis into revenue over the remaining term of the collaboration at the time of receipt.

In addition, Genzyme purchased 3,000,000 shares of common stock on January 27, 2009 for $2.00 per share, representing a premium of $0.51 per share above the closing price of the Company s common stock on that date of $1.49 per share. The aggregate premium paid by Genzyme over the closing price of the Company s common stock on the date of the transaction of $1.53 million is deemed to be a part of the total consideration for the CLP Agreement. Accordingly, the Company deferred the aggregate $1.53 million premium and is amortizing that amount on a straight-line basis into revenue over the initial five-year collaboration period ending in January 2014.

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The Company recognized approximately $1.0 million in license fee revenue in connection with the amortization of the up-front payments from Genzyme, during each of the three months ended March 31, 2013 and March 31, 2012.

Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation in the financial statements and accompanying notes to the financial statements.

(3) MAYO LICENSE AGREEMENT

Overview

On June 11, 2009, the Company entered into a license agreement (the License Agreement) with MAYO Foundation for Medical Education and Research (MAYO). Under the License Agreement, MAYO granted the Company an exclusive, worldwide license within the field (the Field) of stool or blood based cancer diagnostics and screening (excluding a specified proteomic target) with regard to certain MAYO patents, and a non-exclusive worldwide license within the Field with regard to certain MAYO know-how. The licensed patents cover advances in sample processing, analytical testing and data analysis associated with non-invasive, stool-based DNA screening for colorectal cancer. Under the License Agreement, the Company assumes the obligation and expense of prosecuting and maintaining the licensed patents and is obligated to make commercially reasonable efforts to bring products covered by the license to market. Pursuant to the License Agreement, the Company granted MAYO two common stock purchase warrants with an exercise price of $1.90 per share covering 1,000,000 and 250,000 shares of common stock, respectively. The Company is also required to make payments to MAYO for up-front fees, fees once certain milestones are reached by the Company, and other payments as outlined in the License Agreement. In addition to the license to intellectual property owned by MAYO, the Company receives product development and research and development efforts from MAYO personnel. The Company determined that the payments made for intellectual property should not be capitalized as the future economic benefit derived from the transactions is uncertain. The Company is also obligated to make royalty payments to MAYO on potential future net sales of any products developed from the licensed technology.

Warrants

The warrants granted to MAYO were valued based on a Black-Scholes pricing model at the date of the grant. The warrants were granted with an exercise price of $1.90 per share of common stock. The grant to purchase 1,000,000 shares was immediately exercisable and the grant to purchase 250,000 shares vests and becomes exercisable over a four year period.

In March of 2010, MAYO partially exercised its warrant covering 1,000,000 shares by utilizing the cashless exercise provision contained in the warrant. As a result of this exercise for a gross amount of 200,000 shares, in lieu of paying a cash exercise price, MAYO forfeited its rights with respect to 86,596 shares leaving it with a net amount of 113,404 shares.

In September of 2010, MAYO partially exercised this warrant by utilizing the cashless exercise provision contained in the warrant. As a result of this exercise for a gross amount of 300,000 shares, in lieu of paying a cash exercise price, MAYO forfeited its rights with respect to 97,853 shares leaving it with a net amount of 202,147 shares.

In June of 2011, MAYO partially exercised this warrant by utilizing the cashless exercise provision contained in the warrant. As a result of this exercise for a gross amount of 250,000 shares, in lieu of paying a cash exercise price, MAYO forfeited its rights with respect to 60,246 shares leaving it with a net amount of 189,754 shares.

In September of 2011, MAYO partially exercised this warrant by utilizing the cashless exercise provision contained in the warrant. As a result of this exercise for a gross amount of 250,000 shares, in lieu of paying a cash exercise price, MAYO forfeited its right with respect to 56,641 shares leaving it with a net amount of 193,359 shares. Following this exercise, the warrant covering 1,000,000 shares was fully exercised.

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In January of 2013, MAYO partially exercised its warrant covering 250,000 shares by utilizing the cashless exercise provision contained in the warrant. As a result of this exercise for a gross amount of 85,000 shares, in lieu of paying a cash exercise price, MAYO forfeited its right with respect to 14,008 shares leaving it with a net amount of 70,992 shares. The warrant now covers a total of 165,000 shares.

Royalty Payments

The Company will make royalty payments to MAYO based on a percentage of net sales of products developed from the licensed technology starting in the third year of the agreement. Minimum royalty payments were $10,000 in 2012 and will be $25,000 per year through 2029, the year the last patent expires.

Other Payments

Other payments under the MAYO agreement include an upfront payment of $80,000, a milestone payment of $250,000 on the commencement of patient enrollment in FDA trials for the Company s Cologuard pre-cancer and cancer screening test, and a $500,000 payment upon FDA approval of the Company s Cologuard test. The upfront payment of $80,000 was made in the third quarter of 2009 and expensed to research and development in the second quarter of 2009. The Company began enrollment in its FDA trial in June of 2011 and the milestone payment of $250,000 was made in June of 2011 and expensed to research and development in the second quarter of 2011. It is uncertain as to when the FDA will approve the Company s pre-cancer and cancer screening test. Therefore, the $500,000 milestone payment has not been recorded as a liability. The Company evaluates the status of the FDA trial at each reporting date to determine if a liability should be recorded for the milestone payment.

In addition, the Company is making payments to MAYO for research and development efforts. During the three months ended March 31, 2013, the Company made payments of $0.1 million. At March 31, 2013 the Company recorded an estimated liability in the amount of $0.4 million for research and development efforts. During the three months ended March 31, 2012, the Company made payments of $0.2 million. At March 31, 2012 the Company recorded an estimated liability in the amount of $0.1 million for research and development efforts.

May 2012 Amendment

In May 2012 the Company expanded the relationship with MAYO through an amendment to the License Agreement. As part of the amendment, MAYO expanded the Company s license to include all gastrointestinal cancers and diseases, and new cancer screening applications of stool- and blood-based testing. As consideration for the expanded license, the Company granted MAYO 97,466 shares of restricted stock, one quarter of which vested immediately, with the remainder to vest in three equal annual installments. The Company recognized $1.0 million in licensing expense during the twelve months ended December 31, 2012 in connection with the restricted stock grant due to the uncertainty in the license providing a future benefit.

As part of the amendment, the Company will also be responsible for making additional restricted stock grants to MAYO as certain milestones are met with respect to commercial launch of the Company s second and third licensed products. Additionally, the Company will make milestone

payments once certain sales levels are reached on the second and third licensed products. It is uncertain as to when these milestones will be met; therefore, the milestone payments have not been recorded as a liability. The Company evaluates the status of the milestone payments at each reporting date to determine if a liability should be recorded for the milestone payment.

(4) STOCK-BASED COMPENSATION

Stock-Based Compensation Plans

The Company maintains the 2010 Omnibus Long-Term Incentive Plan, the 2010 Employee Stock Purchase Plan, the 2000 Stock Option and Incentive Plan and the 2000 Employee Stock Purchase Plan (collectively, the Stock Plans).

Stock-Based Compensation Expense

The Company recorded $1.0 million in stock-based compensation expense during the three months ended March 31, 2013 in connection with the amortization of restricted stock and restricted stock unit awards, stock purchase rights

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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 $1.0 million in stock-based compensation expense during the three months ended March 31, 2012 in connection with the amortization of restricted stock and restricted stock unit awards, stock purchase rights granted under the Company s employee stock purchase plan and stock options granted to employees and non-employee directors.

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 based on the assumptions in the table below. The estimated fair value of employee stock options is recognized to expense using the straight-line method over the vesting period.

Expected Term - The Company uses the simplified calculation of expected life, described in the SEC s Staff Accounting Bulletins 107 and 110, as the Company does not currently have sufficient historical exercise data on which to base an estimate of expected life. Using this method, the expected term is determined using the average of the vesting period and the contractual life of the stock options granted.

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 valuation method on the implied yield currently available on U.S. Treasury zero-coupon issues with an equivalent expected term.

Forfeitures - The Company records stock-based compensation expense only for those awards that are expected to vest. A forfeiture rate is estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from initial estimates. The Company s forfeiture rate used in the three months ended March 31, 2013 was 2.76%. The Company s forfeiture rate used in the three months ended March 31, 2012 was 1.38%.

The fair value of each restricted stock and restricted stock unit award is determined on the date of grant using the closing stock price on that day.

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	Three Months Ended March 31,	
	2013	2012
Option Plan Shares		
Risk-free interest rates	1.15%	0.84%
Expected term (in years)	6	6
Expected volatility	84%	92%
Dividend yield	0%	0%
Weighted average fair value per share of options granted during the period	$ 7.73	$ 6.84
ESPP Shares		
Risk-free interest rates	(1)	(1)
Expected term (in years)	(1)	(1)
Expected volatility	(1)	(1)
Dividend yield	(1)	(1)
Weighted average fair value per share of stock purchase rights granted during the period	(1)	(1)

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

Stock Option and Restricted Stock Activity

A summary of stock option activity under the Stock Plans during the three months ended March 31, 2013 is as follows:

Options	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value (1)
Outstanding, January 1, 2013	6,181,996	$ 2.62	6.6	$ 49,439
Granted	224,950	$ 10.82		
Exercised	(17,000)	$ 5.27		
Forfeited	(11,000)	$ 9.76		
Outstanding, March 31, 2013	6,378,946	$ 2.89	6.5	$ 44,559
Exercisable, March 31, 2013	5,153,602	$ 1.86	6.0	$ 41,156
Vested and expected to vest March 31, 2013	6,345,128	$ 2.91	6.5	$ 43,967

(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 $9.80 market price of the Company s common stock at March 31,

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2013. The total intrinsic value of options exercised during the three months ended March 31, 2013 was $0.1 million. The total intrinsic value of options exercised during the three months ended March 31, 2012 was $0.4 million.

As of March 31, 2013, there was $13.6 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 changes in forfeitures. The Company expects to recognize that cost over a weighted average period of 3.01 years.

A summary of restricted stock activity under the Stock Plans during the three months ended March 31, 2013 is as follows:

	Restricted Stock		Weighted Average Grant Date Fair Value
Outstanding, January 1, 2013	813,955	$	8.51
Granted	554,701	$	10.80
Released	(103,595)	$	8.11
Forfeited	(262,500)	$	9.07
Outstanding, March 31, 2013	1,002,561	$	9.67

During the first quarter of 2012, the Company granted a total of 262,500 restricted stock units to certain executives that would have vested based upon the satisfaction of certain service and performance conditions. These performance conditions were not met and the awards were forfeited during the first quarter of 2013. The expense recorded through December 31, 2012 for these awards totaling $0.6 million was reversed during the first quarter of 2013 due to the forfeiture.

During the first quarter of 2013, the Company granted a total of 180,750 restricted stock units to certain executives that will vest based upon the satisfaction of certain service and performance conditions. The Company performed an evaluation of internal and external factors, and determined the number of shares that are most likely to vest based on the probability of what performance conditions will be met. The expense for the fair value of the awards that are expected to vest is being recognized ratably over the vesting period.

Warrants to purchase 75,000 shares of common stock were issued in connection with a consulting agreement in 2009. The warrants contain a performance condition and vest if the Company successfully receives FDA approval for its Cologuard test. The Company is uncertain if the performance conditions will be attained, and therefore no expense has been recorded on this warrant as of March 31, 2013. The exercise price of the warrant is $0.01.

(5) FAIR VALUE MEASUREMENTS

The FASB 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.

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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 our long-term debt based on a market approach was approximately $1.0 million as of March 31, 2013 and December 31, 2012 and represent Level 2 measurements. When determining the estimated fair value of our long-term debt, we used market-based risk measurements, such as credit risk.

The following table presents the Company s fair value measurements as of March 31, 2013 along with the level within the fair value hierarchy in which the fair value measurements in their entirety fall. Amounts in the table are in thousands.

Cash and cash equivalents				
Cash and money market	$ 8,053	$ 8,053	$	$
Available-for-Sale				
Marketable securities				
U.S. government agency securities	33,734		33,734	
Corporate bonds	47,521		47,521	
Certificates of deposit	4,975		4,975	
Commercial paper	1,199		1,199	
Total	$ 95,482	$ 8,053	$ 87,429	$

The following table presents the Company s fair value measurements as of December 31, 2012 along with the level within the fair value hierarchy in which the fair value measurements in their entirety fall. Amounts in the table are in thousands.

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Description	Fair Value at December 31, 2012	Fair Value Measurement at December 31, 2012 Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and cash equivalents				
Cash and money market	$ 13,095	$ 13,095	$	$
Corporate bonds	250		250	
Available-for-Sale				
Marketable securities				
U.S. government agency securities	44,308		44,308	
Certificates of deposit	5,939		5,939	
Corporate bonds	43,330		43,330	
Commercial paper	1,199		1,199	
Total	$ 108,121	$ 13,095	$ 95,026	$

As of March 31, 2013 and December 31, 2012 there were available-for-sale securities in a continuous unrealized loss position for less than twelve months where the total unrealized losses were $5,685 and $4,800 respectively. At March 31, 2013 and December 31, 2012 there were no available-for-sale securities in a continuous loss position for greater than twelve months.

The following summarizes contractual underlying maturities of the Company s available-for-sale investments in debt securities at March 31, 2013 (in thousands):

	Cost	Fair Value
Due in one year or less	$ 58,362	$ 57,170
Due after one year through two years	28,997	30,259
	$ 87,359	$ 87,429

(6) RELATED PARTY TRANSACTIONS

During the three months ended September 30, 2012, the Company entered into a one year consulting agreement with a non-employee director under which the director will provide advisory services in support of the Company s commercialization activities. In accordance with the agreement, the Company granted a restricted stock award for 4,873 shares of common stock that vests over one year, and will make cash payments totaling $60,000 over the one year term of the agreement.

(7) INCOME TAXES

The Company is subject to taxation in the U.S. and various state jurisdictions. All of the Company s tax years are subject to examination by the U.S. and state tax authorities due to the carryforward of unutilized net operating losses.

Under financial accounting standards, deferred tax assets or liabilities are computed based on the differences between the financial statement and income tax bases of assets and liabilities using the enacted tax rates. Deferred income tax expense or benefit represents the change in the deferred tax assets or liabilities from period to period.

A valuation allowance to reduce the deferred tax assets is reported if, based on the weight of the evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized. The Company has incurred significant

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losses since its inception and due to the uncertainty of the amount and timing of future taxable income, management has determined that a full valuation allowance at March 31, 2013 is necessary to reduce the tax assets to the amount that is more likely than not to be realized. Due to the existence of the valuation allowance, future changes in our unrecognized tax benefits will not impact the Company s effective tax rate.

The Company recognizes the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more-likely-than-not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement with the relevant tax authority. At March 31, 2013 the Company had no unrecognized tax benefits, nor are there any tax positions where it is reasonably possible that the total amounts of unrecognized tax benefits will significantly increase or decrease within the 12 months following March 31, 2013.

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

The following discussion of the financial condition and results of operations of Exact Sciences Corporation should be read in conjunction with the condensed 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, 2012, which has been filed with the SEC (the 2012 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 and 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, could, seek, i estimate, anticipate or other comparable terms. Forward-looking statements in this Quarterly Report on Form 10-Q may address the following subjects among others: statements regarding the sufficiency of our capital resources, expected operating losses, timing and anticipated results of our pivotal clinical trial and our related FDA submissions, estimated markets for our products and expected revenues, expected research and development expenses, expected general and administrative expenses and our expectations concerning our business strategy. Forward-looking statements involve inherent risks and uncertainties which could cause actual results to differ materially from those in the forward-looking statements, as a result of various factors including those risks and uncertainties described in the Risk Factors and in Management s Discussion and Analysis of Financial Condition and Results of Operations sections of our 2012 Form 10-K and our subsequently filed Quarterly Reports on Form 10-Q. We urge you to consider those risks and uncertainties in evaluating our forward-looking statements. We caution readers not to place undue reliance upon any such forward-looking statements, which speak only as of the date made. Except as otherwise required by the federal securities laws, we disclaim any obligation or undertaking to publicly release any updates or revisions to any forward-looking statement contained herein (or elsewhere) to reflect any change in our expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

Overview

Exact Sciences Corporation (we, us, our or the Company) is a molecular diagnostics company currently focused on the early detection and prevention of colorectal cancer. We have developed an accurate, non-invasive, patient friendly screening test to meet our primary goal of becoming the market leader for a diagnostic screening product for the early detection of colorectal pre-cancer and cancer.

Our strategic roadmap to achieve this goal includes the following key components:

- advance our product through U.S. Food and Drug Administration (FDA) clinical approval process;

- commercialize an FDA-approved product that detects colorectal pre-cancer and cancer; and

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• secure favorable reimbursement for our product from payors.

Our Cologuard test is a non-invasive, stool-based DNA (sDNA) screening test designed to detect DNA markers, which in published studies have been shown to be associated with colorectal cancer. In addition to DNA markers, our test includes a protein marker to detect blood in the stool utilizing an antibody-based fecal immunochemical test (FIT).

Colorectal cancer is the second leading cause of cancer deaths in the United States and the leading cause of cancer deaths among nonsmokers.

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. Accordingly, the American Cancer Society recommends that all people age 50 and older undergo regular colorectal cancer screening. Of the more than 80 million people in the United States for whom routine colorectal cancer screening is recommended, nearly 47 percent have not been screened according to current guidelines. Poor compliance 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 67 percent and 12 percent, respectively.

We believe the large population of unscreened and inadequately screened patients represents a significant opportunity for a patient friendly screening test like ours. A powerful preventive tool that detects pre-cancerous polyps and early stage colorectal cancer could significantly reduce colorectal cancer deaths and the health care costs associated with the disease. Pre-cancerous polyps are present in approximately 6 percent of average risk people 50 years of age and older who undergo routine colorectal cancer screening.

The competitive advantages of sDNA screening provide a significant market opportunity. Assuming a 30-percent test adoption rate and a three-year screening interval, we estimate the potential U.S. market for sDNA screening to be more than $2 billion and we estimate the potential global market opportunity to be greater than $3 billion.

Our current focus is on seeking FDA approval for our Cologuard test. We believe obtaining FDA approval is important to building broad demand and successfully commercializing our sDNA colorectal cancer screening technology. We are also in the process of developing our strategy for the ultimate commercialization of our Cologuard test.

In November 2012 we completed enrollment for our pivotal FDA clinical trial with over 10,000 patients enrolled at 90 enrollment sites in the U.S. and Canada. All patients provided a sample to be tested with our Cologuard test, and received a FIT test and a colonoscopy.

Preliminary, top-line data from the clinical trial show that our Cologuard test demonstrated 92 percent sensitivity for the detection of colorectal cancer and 42 percent sensitivity for the detection of pre-cancerous polyps, including 66 percent sensitivity for polyps equal to or greater than 2 centimeters. The test achieved a specificity of 87 percent during the clinical trial.

The clinical trial achieved all of its endpoints. The co-primary endpoints for the study were the sensitivity and specificity of the Cologuard screening test for colorectal adenocarcinoma. The clinical trial included two sets of co-secondary endpoints. The first included sensitivity and specificity of the test for advanced adenomas. The second included superiority of Cologuard to FIT for cancer and advanced adenoma sensitivity.

Each patient result from the Cologuard test was compared to the patient s colonoscopy result and the histopathologic diagnosis of any lesions that were discovered during colonoscopy and biopsied. The study population included 64 cancer patients and 752 patients with pre-cancerous polyps.

We are currently in the process of submitting the results of our clinical trial to the FDA through a three part submission of a manufacturing module, analytical module, and clinical module. The manufacturing module was submitted to the FDA in

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December 2012 and the analytical module was submitted in February 2013. We expect to submit the clinical module in the second quarter of 2013.

We believe that obtaining a favorable national coverage decision and a favorable reimbursement rate from the Centers for Medicare & Medicaid Services (CMS) for our Cologuard test will be a necessary element in achieving material commercial success.

With the goal of expediting receipt of a favorable coverage decision, we are working with CMS to coordinate the CMS coverage review with the FDA pre-market approval through a parallel review process. This program provides a pathway to a potential CMS national coverage determination shortly after an FDA approval, should it occur.

We plan to focus marketing efforts on primary care physicians who prescribe a high volume of fecal occult blood testing (FOBT) and FIT tests since this physician group has displayed a partiality for stool based screening methods. Six percent of primary care physician prescribers are responsible for 60% of FOBT/FIT volume.

We have generated limited operating revenues since inception and, as of March 31, 2013, we had an accumulated deficit of approximately $285.1 million. We expect to continue to incur losses for the next several years, and it is possible we may never achieve profitability.

2013 Priorities

Our top priorities for 2013 include completing the FDA submission and CMS coverage application for our Cologuard test. If for any reason our FDA submission is substantially delayed, the FDA does not approve our PMA or such approval is substantially delayed, our business and prospects would likely be materially adversely impacted. Likewise it would be a material adverse event for our business if we do not receive a positive national coverage decision and favorable reimbursement rate from CMS or if for any other reason we are unable to successfully commercialize our Cologuard test.

In 2013 we also plan to focus on building our manufacturing capacity which includes continuous improvements to our FDA compliant quality management system.

Another 2013 priority for us is establishing a CLIA certified lab facility to process Cologuard tests and provide patient results.

In addition, in 2013 we plan to work toward launch readiness through building and deploying an experienced marketing team and continuing our outreach and education efforts to physicians, third party payors and advocates.

We also have identified a new opportunity for our sDNA colorectal cancer screening technology focused on the inflammatory bowel disease (IBD) patient population. We initiated an IBD clinical trial in the first quarter of 2013 that will focus on this specific patient group, and plan on enrolling around 300 IBD patients into the trial. Furthermore, we will work on developing enhancements to our Cologuard test and identifying and conducting research on other potential pipeline products targeting other cancers, such as esophageal and pancreatic cancer.

Financial Overview

Revenue. Our revenue is comprised of the amortization of up-front license fees for the licensing of certain patent rights to Genzyme. We expect that license fees for 2013 will be consistent with amounts recorded in 2012.

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.

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Critical Accounting Policies and Estimates

Management s discussion and analysis of our financial condition and results of operations is based on our condensed financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. 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 the 2012 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.

License fees. License fees for the licensing of product rights on initiation of strategic agreements are recorded as deferred revenue upon receipt of cash and recognized as revenue on a straight-line basis over the license period.

In connection with our January 2009 strategic transaction with Genzyme Corporation, Genzyme agreed to pay us a total of $18.5 million, of which $16.65 million was paid on January 27, 2009 and $1.85 million was subject to a holdback by Genzyme to satisfy certain potential indemnification obligations in exchange for the assignment and licensing of certain intellectual property to Genzyme. Our on-going performance obligations to Genzyme under the Collaboration, License and Purchase Agreement (the CLP Agreement), as described below, including our obligation to deliver certain intellectual property improvements to Genzyme, if improvements are made during the initial five-year collaboration period, were deemed to be undelivered elements of the CLP Agreement on the date of closing. Accordingly, we deferred the initial $16.65 million in cash received at closing and are amortizing that up-front payment on a straight-line basis into revenue over the initial five-year collaboration period ending in January 2014. We received the first holdback amount of $962,000, which included accrued interest due, from Genzyme during the first quarter of 2010 and the second holdback amount of $934,250, which included accrued interest, due from Genzyme during the third quarter of 2010. The amounts were deferred and are being amortized on a straight-line basis into revenue over the remaining term of the collaboration at the time of receipt.

In addition, Genzyme purchased 3,000,000 shares of our common stock on January 27, 2009, for $2.00 per share, representing a premium of $0.51 per share above the closing price of our common stock on that date of $1.49 per share. The aggregate premium paid by Genzyme over the closing price of our common stock on the date of the transaction of $1.53 million is deemed to be a part of the total consideration for the CLP Agreement. Accordingly, we deferred the aggregate $1.53 million premium and are amortizing that amount on a straight-line basis into revenue over the initial five-year collaboration period ending in January 2014.

In total, we recognized approximately $1.0 million in license fee revenue in connection with the amortization of the up-front payments and holdback amounts from Genzyme during each of the three months ended March 31, 2013 and 2012.

Stock-Based Compensation. In accordance with GAAP, all stock-based payments, including grants of employee stock options, restricted stock and restricted stock units 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 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 estimated fair value of employee stock options is recognized to expense using the straight-line method over the vesting period.

- ***Expected Term*** - The Company uses the simplified calculation of expected life, described by the SEC s Staff Accounting Bulletins 107 and 110, as the Company does not currently have sufficient historical exercise data on which to base an estimate of expected term. Using this method, the expected term is determined using the average of the vesting period and the contractual life of the stock options granted.

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- ***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 valuation method on the implied yield currently available on U.S. Treasury zero-coupon issues with an equivalent expected term.

- ***Forfeitures*** - The Company records stock-based compensation expense only for those awards that are expected to vest. A forfeiture rate is estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from initial estimates. The Company s forfeiture rate used in the three months ended March 31, 2013 was 2.76%. The Company s forfeiture rate used in the three months ended March 31, 2012 was 1.38%.

The fair value of each restricted stock award and restricted stock unit is determined on the date of grant using the closing stock price on that day. The fair value of each option award is estimated on the date of grant using the Black-Scholes option pricing model based on the assumptions in Note 4 to our condensed financial statements.

Results of Operations

Revenue. Total revenue was $1.0 million for each of the three months ended March 31, 2013 and March 31, 2012. Total revenue is composed of the amortization of up-front technology license fee payments associated with our collaboration, license and purchase agreement with Genzyme. The unamortized Genzyme up-front payment and holdback amounts are being amortized on a straight-line basis over the initial Genzyme collaboration period, which ends in January 2014.

Research and development expenses. Research and development expenses decreased to $7.5 million for the three months ended March 31, 2013 from $9.0 million for the three months ended March 31, 2012. This decrease was primarily due to a decrease in clinical trial costs and professional fees due to our closing enrollment in the FDA clinical trial for our Cologuard test in November 2012.

	March 31,		
	2013	2012	Change
Personnel expenses	2.2	1.7	0.5
Professional fees	2.0	3.2	(1.2)
Other research and development	1.3	0.4	0.9
Lab expenses	0.6	0.9	(0.3)
Stock-based compensation	0.5	0.5	
Research collaborations	0.5	0.3	0.2
Clinical trial expenses	0.4	2.0	(1.6)
Total research and development expenses	$ 7.5	$ 9.0	$ (1.5)

General and administrative expenses. General and administrative expenses increased to $2.6 million for the three months ended March 31, 2013 compared to $2.1 million for the three months ended March 31, 2012. The increase in general and administrative expenses was primarily a result of hiring additional personnel and supporting the overall growth of the Company.

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	March 31,		
	2013	2012	Change
Legal and professional fees	0.9	0.6	0.3
Personnel expenses	0.7	0.5	0.2
Other general and administrative	0.7	0.4	0.3
Stock-based compensation	0.2	0.5	(0.3)
Facility costs	0.1	0.1	
Total general and administrative expenses	$ 2.6	$ 2.1	$ 0.5

Sales and marketing expenses. Sales and marketing expenses increased to $1.8 million for the three months ended March 31, 2013, from $0.6 million for the three months ended March 31, 2012. The increase in sales and marketing expense was a result of hiring additional marketing personnel and increasing our efforts for the commercialization of our Cologuard test.

	March 31,		
	2013	2012	Change
Professional fees	0.8	0.3	0.5
Personnel expenses	0.7	0.2	0.5
Stock-based compensation	0.2	0.1	0.1
Other sales and marketing	0.1		0.1
Total sales and marketing expenses	$ 1.8	$ 0.6	$ 1.2

Investment income. Investment income was $62,000 for the three months ended March 31, 2013 and 2012. This remained unchanged primarily due to average investment balances and returns being consistent between the two periods.

Interest expense. Interest expense increased to $19,000 for the three months ended March 31, 2013 from $5,000 for the three months ended March 31, 2012. This increase is primarily due to interest expense recognized for our capital lease during the three months ended March 31, 2013 which was not in place in the prior period.

Liquidity and Capital Resources

We have financed our operations since inception primarily through private and public offerings of our common stock, cash received from LabCorp in connection with our license agreement with LabCorp, and cash received in January 2009 from Genzyme in connection with the Genzyme strategic transaction. As of March 31, 2013, we had approximately $8.1 million in unrestricted cash and cash equivalents and approximately $87.4 million in marketable securities.

All of our investments in marketable securities are comprised 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, consistent with these two objectives. 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 $12.1 million for the three months ended March 31, 2013 as compared to $11.2 million for the three months ended March 31, 2012. The principal use of cash in operating activities for the three months ended March 31, 2013 was to fund our net loss which increased from the three months ended March 31, 2012 primarily due to increased sales and marketing activities to support our commercialization efforts and go to market strategy.

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Net cash provided by investing activities was $6.8 million for the three months ended March 31, 2013 as compared to net cash used in investing activities of $13.9 million for the three months ended March 31, 2012. The increase in cash provided by investing activities for the three months ended March 31, 2013 compared to the cash used in investing activities for the same period in 2012 was primarily the result of the timing of purchases and maturities of marketable securities. Excluding the impact of purchases and maturities of marketable securities, net cash used in investing activities consisted of purchases of property and equipment of $0.4 million for the three months ended March 31, 2013 and $0.2 million for the same period in 2012. The increase in property and equipment purchases during the three months ended March 31, 2013 was primarily the result of increased laboratory equipment purchases for the testing of clinical trial samples.

Net cash provided by financing activities was $8,000 for the three months ended March 31, 2013, as compared to net cash provided by financing activities of $1.6 million for the three months ended March 31, 2012. The decrease in cash provided by financing activities is primarily due to payments made for the Company s capital lease offset by proceeds of $0.1 million from stock option exercises for the three months ended March 31, 2013 compared to $1.6 million of cash inflows from stock option exercises for the same period in 2012.

We expect that cash and cash equivalents on hand at March 31, 2013 will be sufficient to fund our 2013 priorities and our current operations for at least the next twelve months, based on current operating plans. However, since we have no current sources of material ongoing revenue, we expect that we will need to raise additional capital to fund our strategic plan, the primary goal of which is obtaining FDA approval or clearance and successfully commercializing our Cologuard test. We have incurred significant expenditures in the process of completing the clinical trial for our Cologuard test which was completed in April 2013. We do not expect additional significant clinical costs related to obtaining approval for our Cologuard test. In addition, we are in the process of developing our strategy for the ultimate commercialization of our Cologuard test which will also take significant time and require significant expenditures. The timing of those expenditures is uncertain and depends in part upon the timeline for obtaining FDA approval.

Off-Balance Sheet Arrangements

As of March 31, 2013, we had no off-balance sheet arrangements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Our exposure to market risk is principally confined to our cash, cash equivalents and marketable securities. We invest our cash, cash equivalents and marketable securities in securities of the U.S. government and its agencies and in investment-grade, highly liquid investments consisting of commercial paper, bank certificates of deposit and corporate bonds, which, as of March 31, 2013 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.

Based on a hypothetical ten percent adverse movement in interest rates, the potential losses in future earnings, fair value of risk-sensitive financial instruments, and cash flows are immaterial, although the actual effects may differ materially from the hypothetical analysis.

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 Chief Executive Officer and our Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Rule 13a-15e promulgated under the Securities Exchange Act of 1934, as amended. Based upon that evaluation, our Chief Executive Officer and our Chief Financial Officer concluded that, as of March 31, 2013, 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 periodic SEC 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

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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

Not applicable.

Item 1A. Risk Factors

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

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

On May 1, 2013, Exact Sciences Corporation (the Company) hosted a webcast and conference call to discuss its first-quarter 2013 financial results (the Earnings Call). During the Earnings Call, Kevin Conroy, the Company s president and CEO, stated that as part of the early adoption strategy for the Company s Cologuard colorectal pre-cancer and cancer screening test the Company planned to target (1) large healthcare systems and groups that employ a high percentage of U.S. physicians and (2) the approximately 2,000 highest prescribing physicians (high prescribing physicians) who prescribe approximately 2.0 million fecal occult blood and fecal immunochemical tests (FOBT/FIT tests) annually. The statement concerning the number of FOBT/FIT tests prescribed by high prescribing physicians was inaccurate, and the 2,000 high prescribing physicians we have identified prescribe approximately 1.2 million FOBT/FIT tests annually.

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Item 6. Exhibits

The exhibits required to be filed as a part of this report are listed in the Exhibit Index.

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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: May 3, 2013

By: /s/ Kevin T. Conroy
Kevin T. Conroy

President and Chief Executive Officer (Principal Executive Officer)

Date: May 3, 2013

By: /s/ Maneesh K. Arora
Maneesh K. Arora

Chief Operating Officer, Chief Financial Officer, and Secretary (Principal Financial Officer and Principal Accounting Officer)

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EXHIBIT INDEX

Exhibit Number	Description
31.1	Certification Pursuant to Rule 13(a)-14(a) or Rule 15d-14(a) of Securities Exchange Act of 1934.
31.2	Certification Pursuant to Rule 13(a)-14(a) or Rule 15d-14(a) of Securities Exchange Act of 1934.
32.1	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	Interactive Data Files