EXACT SCIENCES CORP
Form 10-Q
October 30, 2018
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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.

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Part I — Financial Information

EXACT SCIENCES CORPORATION

Condensed Consolidated Balance Sheets

(Amounts in thousands, except share data - unaudited)

	September 30, 2018	December 31, 2017
ASSETS		
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	$ 1,509,576	$ 598,560
LIABILITIES AND STOCKHOLDERS' EQUITY		
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	$ 1,509,576	$ 598,560

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

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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.

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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	$ (44,892)	$ (26,832)	$ (121,831)	$ (92,529)

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

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EXACT SCIENCES CORPORATION

Condensed Consolidated Statements of Cash Flows

(Amounts in thousands, except share data - unaudited)

	Nine Months Ended September 30,	
	2018	2017
Cash flows from operating activities:		
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	(68,089)	(70,960)
Cash flows from investing activities:		
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	(772,497)	(185,459)
Cash flows from financing activities:		
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	924,788	258,238
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	$ 161,705	$ 50,837
Supplemental disclosure of non-cash investing and financing activities:		
Property and equipment acquired but not paid	$ 25,714	$ 3,930
Unrealized gain (loss) on available-for-sale investments	$ (668)	$ 7
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	$ 4,303	$ 3,008
Interest paid	$ 4,638	$ 151

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

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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.

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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:

	September 30, 2018		
	Gains in Accumulated Other Comprehensive	Losses in Accumulated Other Comprehensive	Estimated Fair

(In thousands)	Amortized Cost	Income (Loss)	Income (Loss)	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	$ 1,024,869	$ 122	$ (1,479)	$ 1,023,512

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

	December 31, 2017			
(In thousands)	Amortized Cost	Gains in Accumulated Other Comprehensive Income (Loss)	Losses in Accumulated Other Comprehensive Income (Loss)	Estimated Fair Value
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	$ 347,913	$ 11	$ (700)	$ 347,224

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:

(In thousands)	Cumulative Translation Adjustment	Unrealized Gain (Loss) on Securities	Accumulated Other Comprehensive Income (Loss)
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	$ (49)	$ (1,357)	$ (1,406)

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

(In thousands)	Cumulative Translation Adjustment	Unrealized Gain (Loss) on Securities	Accumulated Other Comprehensive Income (Loss)
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	$ (107)	$ (207)	$ (314)

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

Details about AOCI Components (In thousands)	Affected Line Item in the Statement of Operations	Nine Months Ended September 30, 2018	2017
Change in value of available-for-sale investments			
Sales and maturities of available-for-sale investments	Investment income	$ 215	$ 10
Total reclassifications		$ 215	$ 10

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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
Property, plant and equipment			
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		$ 188,486	$ 79,986

(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.

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Intangible Assets

Intangible Assets

Intangible assets consisted of the following:

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

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:

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

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

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

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

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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

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

The 2017 Biomatrica 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 Biomatrica's stock. Therefore, the Company has accounted for the 2017 Biomatrica 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 Biomatrica 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 Biomatrica'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 Biomatrica 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 Biomatrica Investment discussed above. The purchase price for the 2018 Biomatrica 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

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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:

	September 30,	
(In thousands)	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	—
	21,180	10,206

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.

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- Once 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-

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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:

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

	Nine Months Ended September 30,	
(In thousands)	2018	2017
Medicare Parts B & C	$ 178,052	$ 119,746
Commercial	123,045	52,686

Other	10,384	6,151
Total	$ 311,481	$ 178,583

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.

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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:

(In thousands)	September 30, 2018	December 31, 2017
Raw materials	$ 12,214	$ 10,344
Semi-finished and finished goods	26,403	15,683
Total inventory	$ 38,617	$ 26,027

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.

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(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.

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(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.

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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
Option Plan Shares				
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
ESPP Shares				
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)

(Aggregate intrinsic value in thousands)				
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.

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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:

	Restricted Shares and RSUs	Weighted Average Grant Date Fair Value
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	6,279,709	$ 22.14

(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.

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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.

		Fair Value Measurement at September 30, 2018 Using:		
(In thousands)	Fair Value at September 30, 2018	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	$ 92,318	$ 92,318	$ —	$ —
U.S. government agency securities	63,694	—	63,694	—
Commercial paper	5,693	—	5,693	—
Available-for-sale Marketable securities				
Corporate bonds	415,459	—	415,459	—
Asset backed securities	287,742	—	287,742	—
U.S. government agency securities	265,131	—	265,131	&nb