EXACT SCIENCES CORP
Form 10-Q
May 10, 2010
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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, 2010

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 (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 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 £ No £

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 May 10, 2010, the registrant had 40,099,242 shares of common stock outstanding.

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Part 1 Financial Information

EXACT SCIENCES CORPORATION

Condensed Consolidated Balance Sheets

(Amounts in thousands, except share data - unaudited)

		March 31, 2010		December 31, 2009
ASSETS				
Current Assets:				
Cash and cash equivalents	$	18,171	$	21,924
Marketable securities		4,221		2,404
Prepaid expenses and other current assets		606		484
Restricted cash		500		500
Total current assets		23,498		25,312
Property and Equipment, at cost:				
Laboratory equipment		556		492
Office and computer equipment		143		90
Leasehold improvements		74		12
Furniture and fixtures		20		20
		793		614
Less Accumulated depreciation and amortization		(204)		(156)
		589		458
	$	24,087	$	25,770
LIABILITIES AND STOCKHOLDERS EQUITY				
Current Liabilities:				
Accounts payable	$	289	$	155
Accrued expenses		1,244		1,385
Third party royalty obligation, current portion		988		
Deferred license fees, current portion		4,889		4,986
Total current liabilities		7,410		6,526
Third party royalty obligation, less current portion				988
Long term debt		1,000		1,000
Long term accrued interest		6		1
Deferred license fees, less current portion		10,934		11,161
Commitments and contingencies				
Stockholders Equity:				
Preferred stock, $0.01 par value				
Authorized 5,000,000 shares				
Issued and outstanding no shares at March 31, 2010 and December 31, 2009				
Common stock, $0.01 par value				
Authorized 100,000,000 shares				
Issued and outstanding 35,832,021 and 35,523,140 shares at March 31, 2010 and December 31, 2009		358		355

Additional paid-in capital	188,096	187,333
Other comprehensive loss		(1)
Accumulated deficit	(183,717)	(181,593)
Total stockholders equity	4,737	6,094
	$ 24,087	$ 25,770

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 March 31, 2010		2009
Revenue:			
Product royalty fees	$	12	$ 7
License fees		1,287	993
		1,299	1,000
Cost of revenue:			
Product royalty fees		6	
Gross profit		1,293	1,000
Operating expenses:			
Research and development		1,795	108
General and administrative		1,512	4,768
Sales and marketing		109	
Restructuring			(3)
		3,416	4,873
Loss from operations		(2,123)	(3,873)
Interest income (expense)		(1)	34
Net loss	$	(2,124)	$ (3,839)
Net loss per share basic and diluted	$	(0.06)	$ (0.13)
Weighted average common shares outstanding basic and diluted		35,607	30,230

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 - unaudited)

	Three Months Ended March 31, 2010	Three Months Ended March 31, 2009
Cash flows from operating activities:		
Net loss	$ (2,124)	$ (3,839)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation of fixed assets	48	12
Amortization and write-offs of patents		95
Stock-based compensation	527	623
Amortization of deferred license fees	(1,286)	(993)
Warrant licensing expense	27	
Changes in assets and liabilities:		
Prepaid expenses and other current assets	(122)	(500)
Accounts payable	134	(649)
Accrued expenses	(76)	(264)
Accrued interest	5	
Third party royalty obligation		(1,485)
Net cash used in operating activities	(2,867)	(7,000)
Cash flows from investing activities:		
Purchases of marketable securities	(3,572)	(16,947)
Maturities of marketable securities	1,756	
Purchases of property and equipment	(179)	(9)
Net cash used in investing activities	(1,995)	(16,956)
Cash flows from financing activities:		
Proceeds from Genzyme Collaboration, License and Purchase Agreement	962	16,650
Proceeds from sale of common stock to Genzyme		6,000
Proceeds from exercise of common stock options and stock purchase plan	147	14
Payment for repurchase of stock options		(50)
Net cash provided by financing activities	1,109	22,614
Net decrease in cash and cash equivalents	(3,753)	(1,342)
Cash and cash equivalents, beginning of period	21,924	4,937
Cash and cash equivalents, end of period	$ 18,171	$ 3,595
Supplemental disclosure of non-cash investing and financing activities:		
Unrealized gain on available-for-sale investments	$ (1)	$
Issuance of 15,460 shares of common stock to fund the Company s 401(k) matching contribution for 2009	$ 65	$

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

EXACT SCIENCES CORPORATION

Notes to Condensed Consolidated Financial Statements

(Unaudited)

(1) ORGANIZATION AND BASIS OF PRESENTATION

Organization

Exact Sciences Corporation (Exact or the Company) was incorporated in February 1995. Exact is a molecular diagnostics company 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 consolidated 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, 2009 included in the Company s Annual Report on 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 our Annual Report on Form 10-K for the year ended December 31, 2009 (the 2009 Form 10-K).

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The accompanying condensed consolidated financial statements include the accounts of the Company s wholly-owned subsidiary, Exact Sciences Securities Corporation, a Massachusetts securities corporation. All significant intercompany transactions and balances have been eliminated in consolidation. On September 16, 2009 the Company dissolved Exact Sciences Securities Corporation and all intercompany transactions and balances were permanently eliminated.

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 all highly-liquid investments with maturities of 90 days or less at the time of acquisition to be cash equivalents.

Marketable Securities

Management determines the appropriate classification of debt securities at the time of purchase and re-evaluates such designation as of each balance sheet date. Debt securities 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 income. The amortized cost of debt securities in this category is adjusted for amortization of premiums and accretion of discounts to maturity computed

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under 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, 2010 and December 31, 2009, 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. There were no realized gains for the three months ended March 31, 2010 and 2009 respectively. Unrealized gains or losses on investments are recorded in other comprehensive income.

Patent Costs

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 derived from the transaction. The capitalized patents are amortized beginning when patents are approved over an estimated useful life of five years. Capitalized patent costs are expensed upon disapproval, upon a decision by the Company to no longer pursue the patent or when the related intellectual property is either sold or deemed to be no longer of value to the Company. The Company determined that all patent costs incurred during the three months ended March 31, 2010 should be expensed and not capitalized as the future economic benefit derived from the transactions was indeterminate.

In connection with the Genzyme strategic transaction the Company sold its then-remaining capitalized intellectual property to Genzyme on January 27, 2009, and accordingly, wrote off the remaining unamortized capitalized patent costs at that time. There are no capitalized patent costs recorded in the Company s financial statements as of March 31, 2010 and December 31, 2009.

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.

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)	**2010**	**2009**
Shares issuable upon exercise of stock options	6,003	6,636
Shares issuable upon exercise of outstanding warrants	1,050	

	7,053	6,636

Accounting for Stock-Based Compensation

In accordance with GAAP, the Company requires all share-based payments to employees, including grants of employee stock options and shares purchased under an employee stock purchase plan (if certain parameters are not met), to be recognized in the financial statements based on their fair values.

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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. On June 27, 2007, the Company entered into an amendment to its exclusive license agreement with LabCorp (the Second Amendment) that, among other modifications to the terms of the license, extended the exclusive license period from August 2008 to December 2010, subject to carve-outs for certain named organizations. Accordingly, the Company amortizes the remaining deferred revenue balance resulting from its license agreement with LabCorp at the time of the Second Amendment ($4.7 million) on a straight-line basis over the remaining exclusive license period, which ends in December 2010.

As more fully described in the Company s Annual Report on Form 10-K for the year ended December 31, 2009, in connection with our strategic transaction with Genzyme, 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), including its obligation to deliver certain intellectual property improvements to Genzyme 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 will amortize 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 and the amount was deferred and will be amortized on a straight line basis into revenue over the remaining term of the collaboration at the time of receipt. Receipt of any additional holdback amounts will be similarly treated.

In addition, Genzyme paid $2.00 per share for the 3,000,000 shares of common stock purchased from the Company on January 27, 2009, 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 will amortize that amount on a straight line basis into revenue over the initial five-year collaboration period ending in January 2014. The Company recognized approximately $0.9 million and $0.7 million, respectively, in license fee revenue in connection with the amortization of the up-front payments from Genzyme during the quarters ended March 31, 2010 and 2009.

Critical Accounting Estimate Third-Party Royalty Obligation

Pursuant to the terms of the agreement the Company has with LabCorp, we agreed to reimburse LabCorp $3.5 million for certain third party royalty payments. As of March 31, 2010 we have paid $2.5 million to LabCorp. We will be required to pay at a maximum the remaining $1.0 million balance in January of 2011. Based on anticipated sales volumes of ColoSure, as of March 31, 2010, we accrued a total of $988,000 related to the total potential remaining $1.0 million obligation to LabCorp. Charges to record or adjust the obligation were recorded under the caption Product royalty fees in our consolidated statements of operations. No charges were recorded during the three months ended March 31, 2010 and 2009. Future increases or decreases in this obligation, to the extent necessary, will continue to be recorded as charges to the product royalty revenue line item of our consolidated statements of operations.

Comprehensive Loss

Comprehensive loss consists of net loss and the change in unrealized gains and losses on marketable securities. Comprehensive loss for the three months ended March 31, 2010 and 2009 was as follows:

	Three Months Ended March 31,			
(In thousands)		**2010**		**2009**
Net loss	$	(2,124)	$	(3,839)
Unrealized gain on marketable securities		1		71
Comprehensive loss	$	(2,123)	$	(3,768)

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(3) MAYO LICENSING 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) (the 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 License Agreement grants the Company an option to include the Proteomic Target within the Field upon written notice by the Company to MAYO during the first year of the term. 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 licenses 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 will also make payments to MAYO for up-front fees, fees once certain milestones are reached by the Company, and other payments as outlined in the agreement. In addition to the license to intellectual property owned by MAYO, the Company will receive 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 liable 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. The total value of the warrants was calculated to be $2.1 million and a non-cash charge of $1.7 million was recognized as research and development expense in the second quarter of 2009 and the remaining $0.4 million non-cash charge will be recognized straight-line over the four year vesting period. Total warrant expense for the three months ended March 31, 2010 was $26,000. The assumptions for the Black-Scholes pricing model are represented in the table below.

Assumptions for Black-Scholes Pricing Model:

Exercise price	$	1.90
Stock price	$	1.99
Volatility		86.30%
Life of warrant (in years)		10
Treasury rate		3.88%
Yield		0%
Fair value per warrant	$	1.72

In March of 2010, MAYO partially exercised its warrant covering 1,000,000 shares by utilizing the cashless exercise provision contained in the agreement. As a result of this exercise for a gross amount of 200,000 shares, (1) in lieu of paying a cash exercise price, MAYO forfeited its rights with respect to 86,569 shares leaving it with a net amount of 113,404 shares, and (2) the warrant now covers a total of 800,000 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 will be $10,000 in 2012 and $25,000 per year thereafter through 2029, the year the last patent expires.

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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 a clinical trial in support of the Company s efforts to obtain FDA clearance for its sDNA colorectal cancer screening product, and a $500,000 payment upon FDA approval of such product. 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. It is uncertain as to when the FDA trial will begin and when the FDA will clear the Company s cancer screening test. Therefore, the $250,000 and $500,000 milestone payments have not been recorded as liabilities. The Company will periodically evaluate the status of the FDA trial. In addition, the Company will be required to pay a minimum of $156,000 to MAYO through June 2010 for research and development efforts. It is estimated that the Company could incur a total of $1.3 million of expenses in 2010 for collaborative research and development efforts with MAYO.

(4) RESTRUCTURING

2008 Restructuring

In July 2008, we took actions to reduce our cost structure to help preserve our cash resources, which we refer to as the 2008 Restructuring. These actions included suspending the clinical validation study of our Version 2 technology, eliminating eight positions, or 67% of our staff, and seeking the re-negotiation of certain fixed commitments. Amounts remaining in the 2008 Restructuring accrual at March 31, 2010, which are expected to be paid out in cash through July 2010, are recorded under the caption Accrued expenses in the Company s condensed consolidated balance sheets. The following table summarizes changes made to the restructuring accrual during the three months ended March 31, 2010 relating to the 2008 Restructuring. Amounts included in the table are in thousands.

Type of Liability	Balance, December 31, 2009	Charges	Cash Payments	Balance, March 31, 2010
Employee separation costs	$	$	$	$
Facility consolidation costs	73	(18)		55
Total	$ 73	$ (18)	$	$ 55

The following table summarizes changes made to the restructuring accrual during the three months ended March 31, 2009, relating to the 2008 Restructuring. Amounts included in the table are in thousands.

Type of Liability	Balance, December 31, 2008	Charges	Cash Payments	Balance, March 31, 2009
Employee separation costs	$ 16	$ (2)	$ (14)	$
Facility consolidation costs	165	(1)	(43)	121
Total	$ 181	$ (3)	$ (57)	$ 121

2007 Restructuring

During the third quarter of 2007, in connection with the Third Amendment to the LabCorp agreement, the Company notified six employees of their termination from the Company (the 2007 Restructuring). The 2007 Restructuring was principally designed to eliminate the Company s sales and marketing functions to reduce costs and help preserve the Company s cash resources. Amounts remaining in the 2007 Restructuring accrual at March 31, 2010, which are expected to be paid out through July 2010, are recorded under the caption Accrued expenses in the

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Company s condensed consolidated balance sheets. The following table summarizes the 2007 Restructuring activities during the three months ended March 31, 2010. Amounts included in the table are in thousands.

Type of Liability	Balance, December 31, 2009	Charges	Cash Payments	Balance, March 31, 2010
Employee separation costs	$	$	$	$
Facility consolidation costs	67	(23)		44
Total	$ 67	$ (23)	$	$ 44

The following table summarizes changes made to the restructuring accrual during the three months ended March 31, 2009, relating to the 2007 Restructuring. Amounts included in the table are in thousands.

Type of Liability	Balance, December 31, 2008	Charges	Cash Payments	Balance, March 31, 2009
Employee separation costs	$	$	$	$
Facility consolidation costs	161		(23)	138
Total	$ 161	$	$ (23)	$ 138

(5) STOCK-BASED COMPENSATION

Stock-Based Compensation Plans

The Company maintains the 1995 Stock Option Plan (1995 Option Plan), the 2000 Stock Option and Incentive Plan (2000 Option Plan) and the 2000 Employee Stock Purchase Plan.

Stock-Based Compensation Expense

The Company recorded $0.5 million in stock-based compensation expense during the three months ended March 31, 2010 in connection with the amortization of restricted common stock awards and stock options granted to employees, non-employee directors and non-employee consultants. The Company recorded $0.6 million in stock-based compensation expense during the three months ended March 31, 2009 in connection with the amortization of awards of common stock, restricted common stock and stock options granted to employees, non-employee directors and non-employee consultants and certain stock option modifications.

Determining Fair Value

Valuation and Amortization Method - The fair value of each option award is estimated on the date of grant using the Black-Scholes pricing model based on the assumptions in the table below. The estimated fair value of employee stock options is amortized 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 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.

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 remaining term.

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Forfeitures - The Company records stock-based compensation expense only for those awards that are expected to vest. No forfeiture rate was utilized for awards granted prior to 2009 due to the monthly vesting terms of the options granted in that timeframe. Because of the vesting terms, the Company was, in effect, recording stock-based compensation only for those awards that were vesting and expected to vest and a forfeiture rate was not necessary. Awards granted in the three months ended March 31, 2010 that vest annually are all expected to vest and no forfeiture rate was utilized. 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 following table.

	Three Months Ended March 31, 2010		Three Months Ended March 31, 2009	
Option Plan Shares				
Risk-free interest rates		2.55% - 2.69%		1.76%
Expected term (in years)		6		6
Expected volatility		92%		85%
Dividend yield		0%		0%
Weighted average fair value per share of options granted during the period	$	3.61	$	0.60
ESPP Shares				
Risk-free interest rates		0.17%-0.38%		(1)
Expected term (in years)		0.5-1		(1)
Expected volatility		80.59%-127.15%		(1)
Dividend yield		0%		(1)
Weighted average fair value per share of stock purchase rights granted during the period	$	1.06		(1)

(1) The Company did not issue stock purchase rights under its 2000 Purchase Plan during the period indicated.

Stock Option and Restricted Stock Activity

A summary of stock option and restricted stock activity under the 1995 Option Plan and the 2000 Option Plan during the three months ended March 31, 2010 is as follows:

Options (Aggregate intrinsic value in thousands)	Shares		Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value (1)
Outstanding, January 1, 2010	5,952,019	$	1.75	8.6	
Granted	155,812	$	1.21		
Exercised	(105,017)	$	1.40		

Cancelled or redeemed						
Outstanding, March 31, 2010	6,002,814	$	1.74	8.4	$	17,824
Exercisable, March 31, 2010	1,868,688	$	2.76	7.1	$	4,704
Vested and expected to vest, March 31, 2010	6,002,814	$	1.74	8.4	$	17,824

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(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 $4.45 market price of the Company s common stock at March 31, 2010.

The table above includes outstanding restricted stock awards of 115,000 shares as of March 31, 2010 reflected as options with no exercise price. The Company granted 99,812 shares of common stock pursuant to restricted stock awards during the three months ended March 31, 2010. There were 24,812 common stock awards that vested and were no longer subject to restriction during the three months ended March 31, 2010.

As of March 31, 2010, there was $3.8 million of total unrecognized compensation cost related to non-vested share-based compensation arrangements granted under all equity compensation 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 3.12 years.

(6) FAIR VALUE MEASUREMENTS

In September 2006, the FASB issued authoritative guidance which clarifies the principle 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. This guidance was adopted in 2009 for non-financial assets and liabilities. Under the standard, fair value measurements are separately disclosed by level within the fair value hierarchy. The fair value hierarchy established 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.

The following table presents the Company s fair value measurements as of March 31, 2010 along with the level within the fair value hierarchy in which the fair value measurements in their entirety fall, segregating fair value measurements using quoted prices in active markets for identical assets or liabilities (Level 1), significant other observable inputs (Level 2), and significant unobservable inputs (Level 3). Amounts in the table are in thousands.

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Description	Fair Value at March 31, 2010	Fair Value Measurement at March 31, 2010 Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash equivalents	$ 18,171	$ 18,171	$	$
Available-for-Sale				
Certificates of deposit	650	650		
Marketable debt securities	$ 3,571	$	$ 3,571	$
Total	$ 22,392	$ 18,821	$ 3,571	$

The following table presents the Company s fair value measurements as of December 31, 2009 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.

Description	Fair Value at December 31, 2009	Fair Value Measurement at December 31, 2009 Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash equivalents	$ 21,924	$ 21,924	$	$
Available-for-Sale				
Certificates of deposit	650	650		
Marketable securities	1,754		1,754	
Total	$ 24,328	$ 22,574	$ 1,754	$

(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. At March 31, 2010 the Company had a deferred tax asset of approximately $66.9 million.

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 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, 2010 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.

In June 2006, the FASB issued guidance that clarifies the accounting for uncertainty in income taxes recognized in an entity s financial statements, and prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Additionally, the FASB provided guidance on subsequent derecognition of tax positions, financial statement classification, recognition of interest and penalties, accounting in interim periods, and disclosure and transition requirements. The Company adopted these provisions on January 1, 2007. As required by the new guidance issued by the FASB, 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 the adoption date, the Company applied this guidance to all tax positions for which the statute of limitations remained open. The amount of unrecognized tax benefits as of January 1, 2007 was none. There have been no changes in unrecognized tax benefits since January 1, 2007, 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, 2010.

(8) RECENT ACCOUNTING PRONOUNCEMENTS

In January 2010, the FASB issued Accounting Standards Update (ASU) 2010-06 *Fair Value Measurement and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements.* This guidance provides for the following new required disclosures related to fair value measurements: 1) the amounts of and reasons for significant transfers in and out of level one and level two inputs and 2) separate presentation of purchases, sales, issuances, and settlements on a gross basis rather than as one net number for level three reconciliations. The guidance also clarifies the existing disclosures as follows: 1) provide fair value measurement disclosures for each class of assets and liabilities and 2) provide disclosures about the valuation techniques and inputs used for both recurring and nonrecurring level two or level three inputs. The Company has adopted this standard, but it did not have a material effect on the Company s consolidated balance sheet or required financial statement disclosures.

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In October 2009, the FASB issued ASU 2009-14, *Software (Topic 985): Certain Revenue Arrangements That Include Software Elements* and ASU 2009-13, *Revenue Recognition (Topic 605): Multiple-Deliverable Revenue Arrangements* related to revenue recognition for arrangements with multiple deliverables and arrangements that include software elements. The new ASU s permit prospective and retrospective adoption, and Exact elected prospective adoption during the first quarter of 2010. Prospective adoption required Exact to apply the new ASU s to revenue arrangements entered into or materially modified beginning January 1, 2010. Upon adoption of this guidance, the timing of revenue recognition has not significantly changed and the impact to Exact s condensed financial position, results of operations or cash flows were not material.

(9) SUBSEQUENT EVENTS

On April 19, 2010 the Company completed an underwritten public offering of 4.2 million shares of common stock at a price of $4.50 per share to the public. The Company received approximately $17.6 million of net proceeds from the offering, after deducting the underwriting discount and estimated expenses of the offering payable by the Company. The Company expects to use the net proceeds from the offering for general corporate and working capital purposes, including the funding of strategic initiatives that the Company may undertake from time to time, for product development and the furtherance of the Company s efforts to obtain FDA clearance of its sDNA colorectal cancer screening product.

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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 consolidated financial statements and the related notes thereto included elsewhere in this Quarterly Report on Form 10-Q and the audited financial statements and notes thereto and Management s Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K for the year ended December 31, 2009, which has been filed with the Securities and Exchange Commission, or SEC.

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 Fo