EXACT SCIENCES CORP
Form 11-K
June 29, 2015
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United States

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 11-K

FOR ANNUAL REPORTS OF EMPLOYEE STOCK

PURCHASE, SAVINGS AND SIMILAR PLANS

PURSUANT TO SECTION 15(d) OF THE

SECURITIES EXCHANGE ACT OF 1934

(Mark One)

x ANNUAL REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2014

OR

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

FOR THE TRANSITION PERIOD FROM TO

COMMISSION FILE NUMBER: 001-35092

A. Full title of the plan and the address of the plan, if different from that of the issuer named below:

EXACT SCIENCES CORPORATION 401(K) PLAN

B. Name of issuer of the securities held pursuant to the plan and the address of its principal executive office:

EXACT SCIENCES CORPORATION

441 CHARMANY DRIVE

MADISON, WI 53719

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EXACT SCIENCES CORPORATION 401(K) PLAN

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Report of Independent Registered Public Accounting Firm

To the Plan Administrator

Exact Sciences Corporation 401(k) Plan

Madison, Wisconsin

We have audited the accompanying statements of net assets available for benefits of the Exact Sciences Corporation 401(k) Plan (the Plan) as of December 31, 2014 and 2013, and the related statement of changes in net assets available for benefits for the year ended December 31, 2014. These financial statements are the responsibility of the Plan s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Plan is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Plan s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits of the Plan as of December 31, 2014 and 2013, and the changes in net assets available for benefits for the year ended December 31, 2014, in conformity with accounting principles generally accepted in the United States of America.

The accompanying supplemental schedule of delinquent participant contributions and schedule of assets (held at end of year) as of December 31, 2014 have been subjected to audit procedures performed in conjunction with the audit of the Plan s financial statements. The supplemental schedules are the responsibility of the Plan s management. Our audit procedures included determining whether the supplemental schedules reconcile to the financial statements or the underlying accounting and other records, as applicable, and performing procedures to test the completeness and accuracy of the information presented in the supplemental schedules. In forming our opinion on the supplemental schedules, we evaluated whether the supplemental schedules, including their form and content, are presented in conformity with the Department of Labor s Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. In our opinion, the supplemental schedules are fairly stated, in all material respects, in relation to the financial statements as a whole.

/s/ BDO USA, LLP

Madison, Wisconsin

June 29, 2015

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EXACT SCIENCES CORPORATION 401(K) PLAN

STATEMENTS OF NET ASSETS AVAILABLE FOR BENEFITS

AS OF DECEMBER 31, 2014 AND 2013

	December 31, 2014	December 31, 2013
Assets		
Investments at fair value		
Mutual funds	$ 725,268	$
Pooled separate accounts	4,328,696	3,182,869
Common collective trust	64,743	59,850
Guaranteed interest account		5,086
Exact Sciences Corporation common stock	4,387,389	1,616,470
Total investments at fair value	9,506,096	4,864,275
Employer matching contribution receivable	1,043,406	456,030
Total assets	10,549,502	5,320,305
Liabilities		
Net assets available for benefits, at fair value	10,549,502	5,320,305
Adjustment from fair value to contract value for fully benefit-responsive investment contract	(718)	(398)
Net assets available for benefits	$ 10,548,784	$ 5,319,907

See accompanying notes to the financial statements.

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EXACT SCIENCES CORPORATION 401(K) PLAN

STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS
YEAR ENDED DECEMBER 31, 2014

[redacted]		
Additions		
[redacted]		
Interest and dividend income	$	64,386
[redacted]		
Total investment income		2,710,075
[redacted]		
Contributions		
[redacted]		
Employer		1,043,406
[redacted]		
Total contributions		2,940,629
[redacted]		
[redacted]		
Benefits paid directly to participants		421,187
[redacted]		
Total deductions		421,827
[redacted]		
[redacted]		
Net assets available for benefits, end of year	$	10,548,784

See accompanying notes to the financial statements.

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EXACT SCIENCES CORPORATION 401(K) PLAN

NOTES TO FINANCIAL STATEMENTS

1. Description of Plan

The following description of the Exact Sciences Corporation 401(k) Plan and its related Trust (collectively, the Plan) is provided for general information purposes only. Participants should refer to the current Plan document for a complete description of the Plan s provisions.

General

The Plan is a defined contribution plan, which was established by Exact Sciences Corporation (the Company) on January 1, 1998, and provides for elective contributions on the part of the participating employees and employer matching contributions of up to 6% of employees eligible compensation within limits established by the Employee Retirement Income Security Act of 1974, as amended (ERISA). The Plan extends coverage to each employee of Exact Sciences Corporation, except leased employees or nonresident aliens with no U.S. source income. The Plan has designated Exact Sciences Corporation as the Plan Administrator. The Plan Administrator is responsible for the operations of the Plan in accordance with prevailing government requirements. The Plan is subject to the provisions of ERISA and provisions of the Internal Revenue Code of 1986, as amended (IRC) as it pertains to plans intended to qualify under IRC Section 401(a).

Plan Amendments

In the normal course of business, various fund options were changed in the Plan during the 2014 plan year:

- The PIMCO Core Plus Bond I Fund liquidated on January 27, 2014. The PIMCO Total Return Fund replaced the PIMCO Core Plus Bond I Fund on January 27, 2014.

- The Alliance Bernstein Principal Small Cap Growth I Fund liquidated on January 27, 2014. The Eagle Asset Management Small Cap Growth Fund replaced the Alliance Bernstein Principal Small Cap Growth I Fund on January 27, 2014.

- The DFA Small Cap Value II Fund liquidated on January 27, 2014. The JP Morgan Small Cap Value Fund replaced the DFA Small Cap Value II Fund on January 27, 2014.

- The Principal Global Mid Cap Value III Fund liquidated on January 27, 2014. The Alliance Bernstein Discovery Value I Fund replaced the Principal Global Mid Cap Value III Fund on January 27, 2014.

- The Principal International Emerging Markets Fund liquidated on January 27, 2014. The American Funds New World Fund replaced the Principal International Emerging Markets Fund on January 27, 2014.

Effective January 1, 2014, the Plan was amended to add a one year service period for participant vesting in employer matching contributions.

Contributions

Plan participants are permitted to make contributions in specified flat dollar amounts or specified percentages of their annual eligible compensation, subject to certain additional limitations for highly compensated employees as defined under the IRC. Participants can suspend their contributions at any time and still remain in the Plan. Participants can resume contributions and can change their elected contribution rate at any time. The Plan permits an eligible participant to make pre-tax contributions in excess of the IRC 402(g) limit. These contributions are known as catch- up contributions. A participant who attains age 50 during a Plan year is permitted to make catch-up contributions to the Plan, subject to the legal limit on these contributions. The legal limit on catch-up contributions was $5,500 during 2014.

Exact Sciences Corporation may make matching contributions equal to 100% of an eligible participant s pre-tax elective contributions and Roth elective deferrals up to a maximum of 6% of the participant s annual eligible compensation and within limits established by the Employee Retirement Income Security Act of 1974. Matching contributions are made in Exact Sciences Corporation common stock and are made once a year following the plan year. The Plan complies with the HEART Act of 2008.

Participants Accounts

Each participant s account is credited with the elective contributions made by that participant and employer matching contributions for which that participant is eligible. The participating employees direct the investment of their elective contributions credited to their account into one or more of the investment choices which have been made available to them. Matching contributions are made in Exact Sciences Corporation common stock but the participant has the option to redirect the investment of the matching contributions credited to their account into one or more of the investment choices which have been made available to them. Each participant s account will be credited with its share of the net investment earnings of the funds in which that account is invested. The employee individually manages the LifeTime Retirement Accounts and the investment results directly affect the participant s investment balances. The benefit to which a participant is entitled is the amount that can be provided from the participant s vested account. The Plan also accepts rollover contributions (i.e., amounts which can be rolled over into a tax qualified plan from another employer s tax qualified plan).

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EXACT SCIENCES CORPORATION 401(K) PLAN

NOTES TO FINANCIAL STATEMENTS

Vesting

The portion of a participant s account attributed to elective contributions, qualified non-elective contributions and rollover contributions are fully vested at all times. Vesting of other amounts (i.e., fully vested rights to the portion of a participant s account arising from employer matching contributions) occurs after the participant s period of service reaches one year. A period of service is measured from an employee s employment or reemployment commencement date and ends on an employee s termination date. Notwithstanding the number of years in an employee s period of service, a participant is considered fully vested at the Plan s normal retirement age of sixty-five, in the event of death, or if the participant incurs a disability that is considered to be total and permanent.

Forfeitures

Forfeitures of terminated participants non-vested accounts may be used to pay permissible Plan expenses in accordance with the rules under ERISA and any excess may be applied as a reduction to employer matching contributions, discretionary non-elective contributions or profit sharing contributions. Forfeitures occur in any Plan year in which a terminated participant receives the portion of the matching contributions credited to his or her account that has vested in accordance with the Plan s vesting schedule and forfeits the non-vested balance. If a terminated participant resumes employment with the employer within five years subsequent to the termination date, the forfeited amount may be restored to their matching contribution account. For the year ended December 31, 2014, no amounts were forfeited from participants non-vested accounts and used to pay permissible Plan expenses.

Payment of Benefits

Benefits are generally payable following a participant s termination of employment, death or disability. Benefits are generally payable in a lump sum but may also be paid in installments or through the purchase of an annuity. Upon demonstration of substantial hardship, and in accordance with specific rules set forth by the Internal Revenue Service (IRS) concerning hardship withdrawals, a participant may withdraw elective deferrals, which have not previously been withdrawn, subject to certain limitations.

Administrative Expenses

A portion of the Plan s administrative expenses, primarily comprised of the costs related to printing and mailing communications to participants, and audit and legal fees, are paid by the Company. All investment related expenses, and the balance of administrative expenses, are paid by the participants.

2. Summary of Significant Accounting Policies

Basis of Accounting

The financial statements of the Plan have been prepared on the accrual basis of accounting.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and changes therein, and disclosures of contingent assets and liabilities. Actual results could differ from those estimates.

Risks and Uncertainties

The Plan invests in various investment securities including mutual funds, pooled separate accounts, common collective trust and Company common stock. Investment securities are exposed to various risks, such as interest rate, market, equity price and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and such changes could materially affect participants account balances and the amounts reported in the statements of net assets available for benefits.

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EXACT SCIENCES CORPORATION 401(K) PLAN

NOTES TO FINANCIAL STATEMENTS

Investment Valuation and Income Recognition

All investments are carried at fair value or an approximation of fair value. Dividends are recorded on the ex-dividend date and interest is accrued as earned. Purchases and sales of securities are recorded on a trade-date basis. Net appreciation (depreciation) includes the Plan s gains and losses on investments bought and sold as well as held during the year.

Fair Value Measurements

The following provides a description of the three levels of input that may be used to measure fair value under Accounting Standards Codification 820, the types of Plan investments that fall under each category, and the valuation methodologies used to measure these investments at fair value.

Level 1 Quoted prices available in active markets for identical assets or liabilities;

Level 2 Inputs other than Level 1 inputs that are directly or indirectly observable;

Level 3 Unobservable inputs in which little or no market data exists

The following table presents the financial assets the Plan measures at fair value on a recurring basis, based upon fair value hierarchy as of December 31, 2014 and 2013:

		Fair Value Measurement at December 31, 2014 Using:		
Description	**Fair Value at December 31, 2014**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Mutual funds	$ 725,268	$ 725,268	$	$
Pooled separate accounts	4,328,696		4,328,696	
Common collective trust	64,743			