

MYRIAD GENETICS INC  
Form 10-Q  
February 05, 2014  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

**FORM 10-Q**

(Mark One)

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

**For the quarterly period ended December 31, 2013**

**OR**

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

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**Commission file number: 0-26642**

**MYRIAD GENETICS, INC.**

**(Exact name of registrant as specified in its charter)**

<b>Delaware</b> <b>(State or other jurisdiction of</b>	<b>87-0494517</b> <b>(I.R.S. Employer</b>
<b>incorporation or organization)</b>	<b>Identification No.)</b>
<b>320 Wakara Way, Salt Lake City, UT</b> <b>(Address of principal executive offices)</b>	<b>84108</b> <b>(Zip Code)</b>
<b>Registrant's telephone number, including area code: (801) 584-3600</b>	

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 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 accelerated filer, large accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. Check one:

Large accelerated filer  Accelerated filer

Non-accelerated filer  (Do not check if smaller reporting company) Smaller reporting company

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 January 31, 2014 the registrant had 72,974,449 shares of \$0.01 par value common stock outstanding.

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**MYRIAD GENETICS, INC.**

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MYRIAD GENETICS, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

<i>(In thousands, except per share amounts)</i>	December 31, 2013	June 30, 2013
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 71,599	\$ 104,073
Marketable investment securities	281,996	268,243
Prepaid expenses	4,237	5,963
Trade accounts receivable, less allowance for doubtful accounts of \$9,200 at Dec. 31, 2013 and \$7,500 at Jun. 30, 2013	84,137	94,333
Deferred taxes	9,074	8,007
Other receivables	3,463	3,373
<b>Total current assets</b>	<b>454,506</b>	<b>483,992</b>
Equipment and leasehold improvements:		
Equipment	73,570	65,903
Leasehold improvements	18,390	18,294
	91,960	84,197
Less accumulated depreciation	60,647	56,595
<b>Net equipment and leasehold improvements</b>	<b>31,313</b>	<b>27,602</b>
Long-term marketable investment securities	135,187	158,748
Long-term deferred taxes	29,983	28,632
Note receivable	23,000	21,667
Other assets	13,000	13,000
Intangibles, net	12,842	13,330
Goodwill	56,850	56,850
<b>Total assets</b>	<b>\$ 756,681</b>	<b>\$ 803,821</b>
<b>Liabilities and Stockholders Equity</b>		
Current liabilities:		
Accounts payable	\$ 17,596	\$ 18,132
Accrued liabilities	45,844	44,334
Deferred revenue	3,952	2,043
<b>Total current liabilities</b>	<b>67,392</b>	<b>64,509</b>
Unrecognized tax benefits	13,318	10,718
<b>Total liabilities</b>	<b>80,710</b>	<b>75,227</b>

Stockholders equity:		
Preferred stock, \$0.01 par value, authorized 5,000 shares, issued and outstanding no shares		
Common stock, \$0.01 par value, authorized 150,000 shares at Dec. 31, 2013 and Jun. 30, 2013, issued and outstanding 73,974 at Dec. 31, 2013 and 80,577 at Jun. 30, 2013	740	806
Additional paid-in capital	663,122	697,346
Accumulated other comprehensive income (loss)	506	(424)
Retained earnings	11,603	30,866
<b>Total stockholders equity</b>	<b>675,971</b>	<b>728,594</b>
	\$ 756,681	\$ 803,821

See accompanying notes to condensed consolidated financial statements (unaudited).

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## MYRIAD GENETICS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME  
(UNAUDITED)

<i>(In thousands, except per share amounts)</i>	Three Months Ended		Six Months Ended	
	December 31,		December 31,	
	2013	2012	2013	2012
Molecular diagnostic testing	\$ 196,158	\$ 140,651	\$ 389,144	\$ 267,919
Companion diagnostic services	7,902	8,489	17,383	14,658
<b>Total revenue</b>	<b>204,060</b>	<b>149,140</b>	<b>406,527</b>	<b>282,577</b>
Costs and expenses:				
Cost of molecular diagnostic testing	22,755	15,566	44,194	29,498
Cost of companion diagnostic services	3,376	4,318	7,418	7,713
Research and development expense	17,090	14,107	33,893	25,507
Selling, general, and administrative expense	77,840	59,563	155,119	115,691
<b>Total costs and expenses</b>	<b>121,061</b>	<b>93,554</b>	<b>240,624</b>	<b>178,409</b>
Operating income	82,999	55,586	165,903	104,168
Other income (expense):				
Interest income	1,330	1,385	2,691	2,753
Other	(185)	14	(623)	(114)
<b>Total other income</b>	<b>1,145</b>	<b>1,399</b>	<b>2,068</b>	<b>2,639</b>
Income before income taxes	84,144	56,985	167,971	106,807
Income tax provision	33,784	21,949	62,146	41,635
<b>Net income</b>	<b>\$ 50,360</b>	<b>\$ 35,036</b>	<b>\$ 105,825</b>	<b>\$ 65,172</b>
Earnings per share:				
Basic	\$ 0.67	\$ 0.43	\$ 1.37	\$ 0.80
Diluted	\$ 0.66	\$ 0.42	\$ 1.33	\$ 0.78
Weighted average shares outstanding				
Basic	75,070	81,692	77,323	81,632
Diluted	76,825	84,240	79,312	84,091
Net income	\$ 50,360	\$ 35,036	\$ 105,825	\$ 65,172
Comprehensive income:				
Unrealized gain (loss) on available-for-sale securities, net of tax	253	(70)	538	13
Change in foreign currency translation adjustment, net of tax	(112)	(280)	392	(72)
<b>Comprehensive income</b>	<b>\$ 50,501</b>	<b>\$ 34,686</b>	<b>\$ 106,755</b>	<b>\$ 65,113</b>

See accompanying notes to condensed consolidated financial statements (unaudited).



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## MYRIAD GENETICS, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

<i>(In thousands)</i>	Six Months Ended	
	2013	2012
Cash flows from operating activities:		
Net income	\$ 105,825	\$ 65,172
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	4,811	4,455
Loss on disposition of assets	40	4
Share-based compensation expense	13,792	13,704
Bad debt expense	21,793	14,729
Impairment of intangible asset		1,490
Accreted interest on note receivable	(1,333)	(1,333)
Unrecognized tax benefits	2,600	130
Excess tax benefit from share-based compensation	(592)	(3,623)
Deferred income taxes	(1,826)	5,899
Changes in operating assets and liabilities:		
Prepaid expenses	1,807	501
Trade accounts receivable	(11,597)	(29,851)
Other receivables	(172)	1,672
Accounts payable	(536)	3,434
Accrued liabilities	1,510	(3,580)
Deferred revenue	1,909	667
Net cash provided by operating activities	138,031	73,470
Cash flows from investing activities:		
Capital expenditures for equipment and leasehold improvements	(8,098)	(7,008)
Purchases of marketable investment securities	(102,661)	(239,264)
Proceeds from maturities and sales of marketable investment securities	113,424	207,230
Net cash provided by (used in) investing activities	2,665	(39,042)
Cash flows from financing activities:		
Net proceeds from common stock issued under share-based compensation plans	6,362	23,903
Excess tax benefit from share-based compensation	592	3,623
Repurchase and retirement of common stock	(180,124)	(79,883)
Net cash used in financing activities	(173,170)	(52,357)
Net decrease in cash and cash equivalents	(32,474)	(17,929)
Cash and cash equivalents at beginning of period	104,073	86,352



Cash and cash equivalents at end of period	\$ 71,599	\$ 68,423
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See accompanying notes to condensed consolidated financial statements (unaudited).

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## MYRIAD GENETICS, INC. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

**(1) Basis of Presentation**

The accompanying condensed consolidated financial statements have been prepared by Myriad Genetics, Inc. (the Company) in accordance with U.S. generally accepted accounting principles (GAAP) for interim financial information and pursuant to the applicable rules and regulations of the Securities and Exchange Commission (SEC). The condensed consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation. In the opinion of management, the accompanying financial statements contain all adjustments (consisting of normal and recurring accruals) necessary to present fairly all financial statements in accordance with GAAP. The condensed consolidated financial statements herein should be read in conjunction with the Company's audited consolidated financial statements and notes thereto for the fiscal year ended June 30, 2013, included in the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2013. Operating results for the three and six months ended December 31, 2013 may not necessarily be indicative of results to be expected for any other interim period or for the full year.

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Certain reclassifications have been made to prior period amounts to conform to the current period presentation.

**(2) Marketable Investment Securities**

The Company has classified its marketable investment securities as available-for-sale securities. These securities are carried at estimated fair value with unrealized holding gains and losses, net of the related tax effect, included in accumulated other comprehensive loss in stockholders' equity until realized. Gains and losses on investment security transactions are reported on the specific-identification method. Dividend and interest income are recognized when earned. The amortized cost, gross unrealized holding gains, gross unrealized holding losses, and fair value for available-for-sale securities by major security type and class of security at December 31, 2013 and June 30, 2013 were as follows:

<i>(In thousands)</i>	<b>Amortized cost</b>	<b>Gross unrealized holding gains</b>	<b>Gross unrealized holding losses</b>	<b>Estimated fair value</b>
At December 31, 2013:				
Cash and cash equivalents:				
Cash	\$ 53,924	\$	\$	\$ 53,924
Cash equivalents	17,675			17,675

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Total cash and cash equivalents	71,599			71,599
Available-for-sale securities:				
Corporate bonds and notes	84,259	60	(1)	84,318
Municipal bonds	268,341	300	(99)	268,542
Federal agency issues	64,293	30		64,323
Total available-for-sale securities	416,893	390	(100)	417,183
Total cash, cash equivalents and available-for-sale securities	\$ 488,492	\$ 390	\$ (100)	\$ 488,782

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<i>(In thousands)</i>	<b>Amortized cost</b>	<b>Gross unrealized holding gains</b>	<b>Gross unrealized holding losses</b>	<b>Estimated fair value</b>
<b>At June 30, 2013:</b>				
<b>Cash and cash equivalents:</b>				
Cash	\$ 40,412	\$	\$	\$ 40,412
Cash equivalents	63,653	8		63,661
<b>Total cash and cash equivalents</b>	<b>104,065</b>	<b>8</b>		<b>104,073</b>
<b>Available-for-sale securities:</b>				
Corporate bonds and notes	71,626	13	(15)	71,624
Municipal bonds	251,513	109	(537)	251,085
Federal agency issues	104,293	24	(35)	104,282
<b>Total available-for-sale securities</b>	<b>427,432</b>	<b>146</b>	<b>(587)</b>	<b>426,991</b>
<b>Total cash, cash equivalents and available-for-sale securities</b>	<b>\$ 531,497</b>	<b>\$ 154</b>	<b>\$ (587)</b>	<b>\$ 531,064</b>

Cash, cash equivalents, and maturities of debt securities classified as available-for-sale securities are as follows at December 31, 2013:

<i>(In thousands)</i>	<b>Amortized cost</b>	<b>Estimated fair value</b>
Cash	\$ 53,924	\$ 53,924
Cash equivalents	17,675	17,675
<b>Available-for-sale:</b>		
Due within one year	281,882	281,996
Due after one year through five years	135,011	135,187
Due after five years		
	<b>\$ 488,492</b>	<b>\$ 488,782</b>

**(3) Share-Based Compensation**

The Company maintains a share-based compensation plan, the 2010 Employee, Director and Consultant Equity Incentive Plan, as amended (the 2010 Plan), that has been approved by the Company's shareholders. The 2010 Plan allows the Company, under the direction of the Compensation Committee of the Board of Directors, to make grants of stock options, restricted and unrestricted stock awards and other stock-based awards to employees, consultants and directors. On December 5, 2013, the shareholders approved an amendment to the 2010 Plan to set the number of shares available for grant to 3,500,000. At December 31, 2013, 3,733,317 shares were available for issuance, which includes 233,317 shares carried over between December 6 and 31, 2013, from the Company's 2003 Employee, Director and Consultant Option Plan (the 2003 Plan) and the 2010 Plan that were cancelled or expired without the

issuance of shares of common stock by the Company. In addition, as of December 31, 2013, the Company may grant up to 6,999,352 additional shares under the 2010 Plan if options previously granted under 2003 Plan are cancelled or expire without the issuance of shares of common stock by the Company.

The number of shares, terms, and vesting period of awards under the 2010 Plan are determined by the Compensation Committee of the Board of Directors for each equity award. Options under the plan granted prior to December 5, 2012 generally vest ratably over four years and expire ten years from the grant date. Options granted after December 5, 2012 generally vest ratably over four years and expire eight years from the grant date. The exercise price of options granted is equivalent to the fair market value of the stock on the grant date.

The Company also has an Employee Stock Purchase Plan that was approved by shareholders in 2012 (the 2012 Purchase Plan ), under which 2,000,000 shares of common stock have been authorized. Shares are issued under the 2012 Purchase Plan twice yearly at the end of each offering period. As of December 31, 2013, approximately 144,000 shares of common stock have been issued under the 2012 Purchase Plan and approximately 1,856,000 were available for issuance.

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A summary of the stock option activity under the Company's plans for the six months ended December 31, 2013 is as follows:

	<b>Number of shares</b>	<b>Weighted average exercise price</b>
Options outstanding at June 30, 2013	14,434,970	\$ 21.75
Options granted	3,304,553	26.48
Less:		
Options exercised	310,866	14.23
Options canceled or expired	354,729	24.33
 Options outstanding at December 31, 2013	 17,073,928	 \$ 22.75

As of December 31, 2013, options to purchase 9,218,423 shares were vested and exercisable at a weighted average price of \$21.39. As of December 31, 2013, there was \$52,276,000 of total unrecognized share-based compensation expense related to share-based awards granted under the Company's plans that will be recognized over a weighted-average period of 2.57 years.

Share-based compensation expense recognized and included in the condensed consolidated statements of income was allocated as follows:

<i>(In thousands)</i>	Three months ended		Six months ended	
	December 31,		December 31,	
	2013	2012	2013	2012
Cost of molecular diagnostic testing	\$ 209	\$ 271	\$ 432	\$ 560
Cost of companion diagnostic services	74	47	137	104
Research and development expense	846	869	1,627	1,678
Selling, general, and administrative expense	5,728	5,918	11,596	11,362
 Total share-based compensation expense	 \$ 6,857	 \$ 7,105	 \$ 13,792	 \$ 13,704

(4) Stockholders' Equity  
*Share Repurchase Program*

In November 2013, the Company completed its fifth share repurchase program, which authorized the repurchase of up to \$200 million of the Company's common stock. In November 2013, the Company's Board of Directors authorized a sixth share repurchase program of \$300 million of the Company's outstanding common stock. The Company plans to repurchase its common stock from time to time or on an accelerated basis through open market transactions or privately negotiated transactions as determined by the Company's management. The amount and timing of stock repurchases under the program will depend on business and market conditions, stock price, trading restrictions,

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acquisition activity and other factors. As of December 31, 2013, approximately \$273.3 million remained available for repurchases under the sixth program. The Company uses the par value method of accounting for its stock repurchases. As a result of the stock repurchases, the Company reduced common stock and additional paid-in capital and recorded charges to retained earnings. The shares retired, aggregate common stock and additional paid-in capital reductions, and related charges to retained earnings for the repurchases for the three and six months ended December 31, 2013 and 2012 were as follows:

<i>(In thousands)</i>	Three months ended		Six months ended	
	December 31,		December 31,	
	2013	2012	2013	2012
Shares purchased and retired	3,185	1,231	6,991	3,067
Common stock and additional paid-in-capital reductions	\$ 25,096	\$ 9,372	\$ 55,036	\$ 23,122
Charges to retained earnings	\$ 52,713	\$ 24,311	\$ 125,088	\$ 56,760

**Table of Contents****(5) Earnings Per Share**

Basic earnings per share is computed based on the weighted-average number of shares of the Company's common stock outstanding. Diluted earnings per share is computed based on the weighted-average number of shares of the Company's common stock, including the dilutive effect of common stock equivalents outstanding.

The following is a reconciliation of the denominators of the basic and diluted earnings per share computations:

<i>(In thousands)</i>	Three months ended		Six months ended	
	December 31, 2013	December 31, 2012	December 31, 2013	December 31, 2012
<b>Denominator:</b>				
Weighted-average shares outstanding used to compute basic earnings per share	75,070	81,692	77,323	81,632
Effect of dilutive stock options	1,755	2,548	1,989	2,459
Weighted-average shares outstanding and dilutive securities used to compute diluted earnings per share	76,825	84,240	79,312	84,091

Certain outstanding stock options were excluded from the computation of diluted earnings per share for the three and six months ended December 31, 2013 and 2012 because the effect would have been anti-dilutive. These potential dilutive common shares, which may be dilutive to future diluted earnings per share, are as follows:

<i>(In thousands)</i>	Three months ended		Six months ended	
	December 31, 2013	December 31, 2012	December 31, 2013	December 31, 2012
Anti-dilutive options excluded from EPS computation	8,500	5,605	7,136	4,585

**(6) Segment and Related Information**

The Company's business units have been aggregated into three reportable segments: (i) research, (ii) molecular diagnostics and (iii) companion diagnostics. The research segment is focused on the discovery of genes, biomarkers and proteins related to major common diseases and includes corporate services such as finance, human resources, legal, and information technology. The molecular diagnostics segment provides testing that is designed to assess an individual's risk for developing disease later in life, identify a patient's likelihood of responding to drug therapy and guide a patient's dosing to ensure optimal treatment, or assess a patient's risk of disease progression and disease recurrence. The companion diagnostics segment provides testing products and services to the pharmaceutical, biotechnology and medical research industries. The Company evaluates segment performance based on results from operations before interest income and expense and other income and expense.



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Segment revenue and operating income (loss) were as follows during the periods presented:

<i>(In thousands)</i>	Research	Molecular diagnostics	Companion diagnostics	Total
<b>Three months ended December 31, 2013:</b>				
Revenue	\$	\$ 196,158	\$ 7,902	\$ 204,060
Depreciation and amortization	482	1,467	489	2,438
Segment operating income (loss)	(16,286)	98,233	1,052	82,999
<b>Three months ended December 31, 2012:</b>				
Revenue	\$	\$ 140,651	\$ 8,489	\$ 149,140
Depreciation and amortization	578	1,232	401	2,211
Segment operating income (loss)	(16,334)	72,970	(1,050)	55,586
<b>Six months ended December 31, 2013:</b>				
Revenue	\$	\$ 389,144	\$ 17,383	\$ 406,527
Depreciation and amortization	992	2,830	989	4,811
Segment operating income (loss)	(32,967)	195,981	2,889	165,903
<b>Six months ended December 31, 2012:</b>				
Revenue	\$	\$ 267,919	\$ 14,658	\$ 282,577
Depreciation and amortization	1,210	2,424	821	4,455
Segment operating income (loss)	(30,765)	138,030	(3,097)	104,168

<i>(In thousands)</i>	Three months ended December 31,		Six months ended December 31,	
	2013	2012	2013	2012
Total operating income for reportable segments	\$ 82,999	\$ 55,586	\$ 165,903	\$ 104,168
Interest income	1,330	1,385	2,691	2,753
Other	(185)	14	(623)	(114)
Income tax provision	33,784	21,949	62,146	41,635
Net income	\$ 50,360	\$ 35,036	\$ 105,825	\$ 65,172

**(7) Fair Value Measurements**

The fair value of the Company's financial instruments reflects the amounts that the Company estimates it will receive in connection with the sale of an asset or pay in connection with the transfer of a liability in an orderly transaction between market participants at the measurement date (exit price). The fair value hierarchy prioritizes the use of inputs used in valuation techniques into the following three levels:

- Level 1 quoted prices in active markets for identical assets and liabilities.
- Level 2 observable inputs other than quoted prices in active markets for identical assets and liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Some of the Company's marketable securities primarily utilize broker quotes in a non-active market for valuation of these securities.

Level 3 unobservable inputs.

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The substantial majority of the Company's financial instruments are valued using quoted prices in active markets or based on other observable inputs. For Level 2 securities, the Company uses a third party pricing service which provides documentation on an ongoing basis that includes, among other things, pricing information with respect to reference data, methodology, inputs summarized by asset class, pricing application and corroborative information. The Company reviews, tests and validates this information. The following table sets forth the fair value of the financial assets that the Company re-measured on a regular basis:

<i>(In thousands)</i>	Level 1	Level 2	Level 3	Total
at December 31, 2013:				
Money market funds (a)	\$ 9,351	\$	\$	\$ 9,351
Corporate bonds and notes		89,318		89,318
Municipal bonds		270,554		270,554
Federal agency issues		65,635		65,635
Total	\$ 9,351	\$ 425,507	\$	\$ 434,858

<i>(In thousands)</i>	Level 1	Level 2	Level 3	Total
at June 30, 2013:				
Money market funds (a)	\$ 12,691	\$	\$	\$ 12,691
Corporate bonds and notes		71,624		71,624
Municipal bonds		302,055		302,055
Federal agency issues		104,282		104,282
Total	\$ 12,691	\$ 477,961	\$	\$ 490,652

(a) Money market funds are primarily comprised of exchange traded funds and accrued interest

**(8) Income Taxes**

In order to determine the Company's quarterly provision for income taxes, the Company used an estimated annual effective tax rate that is based on expected annual income and statutory tax rates in the various jurisdictions in which the Company operates. Certain significant or unusual items are separately recognized in the quarter during which they occur and can be a source of variability in the effective tax rates from quarter to quarter.

Income tax expense for the three months ended December 31, 2013 was \$33,784,000, or approximately 40% of pre-tax income, compared to \$21,949,000, for the three months ended December 31, 2012, or approximately 39% of pre-tax income. Income tax expense for the six months ended December 31, 2013 was \$62,146,000, or approximately 37% of pre-tax income, compared to \$41,635,000, or approximately 39% of pre-tax income. Income tax expense for the three and six months ended December 31, 2013 is based on the Company's estimated annual effective tax rate for the full fiscal year ending June 30, 2014, adjusted by discrete items recognized during the period. For the six months ended December 31, 2013, the Company's recognized effective tax rate differs from the U.S. federal statutory rate of

35% primarily due to the effect of state income taxes, a deduction for the write-off of stock in a wholly-owned subsidiary recently divested, as well as timing differences related to the recognition of the tax effect of equity compensation expense from incentive stock options and the deduction realized if those options are disqualified upon exercise and sale.

The Company files U.S., U.K., France and state income tax returns in jurisdictions with various statutes of limitations. Annual and interim tax provisions include amounts considered necessary to pay assessments that may result from examination of prior year tax returns; however, the amount ultimately paid upon resolution of issues may differ materially from the amount accrued. The Company's U.S. federal tax return, U.K. and France income tax returns and all other state tax returns are not currently under examination.

(9) Goodwill and Intangible Assets

*Goodwill*

At December 31, 2013, the Company had recorded goodwill of \$56,850,000 related to the acquisition of Myriad RBM, Inc. on May 31, 2011 (formerly Rules-Based Medicine, Inc.). There were no events or circumstances that indicated that impairment exists; therefore, the Company recorded no impairment of goodwill for the three and six months ended December 31, 2013.

**Table of Contents***Intangible Assets*

Intangible assets primarily consist of amortizable assets of purchased licenses and technologies, customer relationships, and tradenames as well as non-amortizable intangible assets of in-process technologies and research and development. Certain of these intangible assets were recorded as part of the Company's purchase of Rules-Based Medicine, Inc. on May 31, 2011. The following summarizes the amounts reported as intangible assets:

<i>(In thousands)</i>	Gross Carrying Amount	Accumulated Amortization	Net
<b>December 31, 2013:</b>			
Purchased licenses and technologies	\$ 4,500	\$ (2,800)	\$ 1,700
Customer relationships	4,650	(1,208)	3,442
Trademarks	3,000	(100)	2,900
<b>Total amortizable intangible assets</b>	<b>12,150</b>	<b>(4,108)</b>	<b>8,042</b>
In-process research and development	4,800		4,800
<b>Total non-amortizable intangible assets</b>	<b>4,800</b>		<b>4,800</b>
<b>Total intangible assets</b>	<b>\$ 16,950</b>	<b>\$ (4,108)</b>	<b>\$ 12,842</b>

<i>(In thousands)</i>	Gross Carrying Amount	Accumulated Amortization	Net
<b>June 30, 2013:</b>			
Purchased licenses and technologies	\$ 4,500	\$ (2,644)	\$ 1,856
Customer relationships	4,650	(976)	3,674
Trademarks	3,000		3,000
<b>Total amortizable intangible assets</b>	<b>12,150</b>	<b>(3,620)</b>	<b>8,530</b>
In-process research and development	4,800		4,800
<b>Total non-amortizable intangible assets</b>	<b>4,800</b>		<b>4,800</b>
<b>Total intangible assets</b>	<b>\$ 16,950</b>	<b>\$ (3,620)</b>	<b>\$ 13,330</b>

The Company recorded amortization during the respective periods for these intangible assets as follows:

<i>(In thousands)</i>	Three months ended		Six months ended	
	December 31,		December 31,	
	2013	2012	2013	2012
Amortization on intangible assets	\$ 244	\$ 231	\$ 488	\$ 506

(10) Term Loan and Option Agreement

On September 8, 2011, the Company issued a \$25,000,000 term loan to Crescendo Bioscience, Inc. ( Crescendo ) of South San Francisco, CA under a Loan and Security Agreement ( Loan Agreement ) and also secured an exclusive three-year option to acquire Crescendo pursuant to a definitive merger agreement (the Option Agreement ). The stated interest rate on the term loan is 7%. The fair value of the Option Agreement of \$8,000,000 was determined utilizing valuation models at the time of the issuance, including the market and income based approaches, which utilize various inputs including projected income, volatility, risk free rates and projected terms. The Company periodically evaluates the Option Agreement for impairment. No impairment indicators were noted at December 31, 2013.

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The residual \$17,000,000 value of the term loan has been classified as a note receivable at its accreted value of \$23,000,000 on the condensed consolidated balance sheet as of December 31, 2013. The Company recorded interest income related to accretion of the note receivable and the stated interest rate for the three and six months ended December 31, 2013 of \$1,104,000 and \$2,208,000, respectively, in the condensed consolidated statement of income. The Company is utilizing the effective interest method to accrete the discount portion of the note receivable through interest income over the three-year term of the Company's option to acquire Crescendo under the Option Agreement. The note receivable is evaluated for collectability each reporting period. If the Company determines that the note receivable and any accrued interest is not collectible, such amount will be written off in the period that determination is made. No amounts related to the note receivable or accrued interest were written off during the three or six months ended December 31, 2013.

On November 14, 2013, the Company received notice from Crescendo that Crescendo had achieved the minimum revenue milestone under the Option Agreement. If the Company exercises its option to acquire Crescendo, it expects to finance the purchase price out of the Company's cash, cash equivalents and marketable investment securities available on hand.

(11) **Cost Basis Investment**

As of December 31, 2013, the Company had a \$5,000,000 investment in RainDance Technologies, Inc. which has been recorded under the cost method as an Other Asset on the Company's condensed consolidated balance sheet. There were no events or circumstances that indicated that impairment exists; therefore, the Company recorded no impairment in the investment for the three or six months ended December 31, 2013.

(12) **Commitments and Contingencies**

The Company is subject to various claims and legal proceedings covering matters that arise in the ordinary course of its business activities. As of December 31, 2013, the management of the Company believes any liability that may ultimately result from the resolution of these matters will not have a material adverse effect on the Company's consolidated financial position, operating results, or cash flows.

(13) **Subsequent Event**

On February 2, 2014, the Company amended and restated the Option Agreement with Crescendo by entering into an amended definitive agreement and plan of merger (the Merger Agreement) to purchase Crescendo for \$270 million in cash, subject to adjustments for Crescendo's cash, indebtedness, working capital and other amounts to be determined in accordance with the Merger Agreement. The Company plans to utilize its existing cash and marketable investment securities to pay the purchase price to acquire Crescendo. The Company currently anticipates that the merger will be completed by the end of fiscal year 2014, subject to regulatory clearance and the satisfaction of customary closing conditions and the other terms and conditions of the Merger Agreement.

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

We are a leading molecular diagnostic company dedicated to making a difference in patients' lives through the discovery and commercialization of novel, transformative tests across major diseases. We believe in improving healthcare for patients by providing physicians with important information to answer critical questions and solve unmet medical needs. Through our proprietary technologies, we believe we are positioned to identify important disease genes, the proteins they produce, and the biological pathways in which they are involved to better understand the underlying molecular basis for the cause of human disease. We believe that identifying these biomarkers (the genes, their expression levels and the proteins they produce) will enable us to develop novel molecular diagnostic tests.

Our goal is to provide physicians with critical information that may guide the healthcare management of their patients to prevent disease, diagnose the disease at an earlier stage, determine the most appropriate therapy, or assess the aggressiveness of their disease. Our proprietary technologies, including DNA, RNA and protein analysis, help us to understand the genetic basis of human disease and the role that genes and their related proteins may play in the onset and progression of disease. We use this information to guide the development of new molecular diagnostic tests that are designed to assess an individual's risk for developing disease later in life (predictive medicine), identify a patient's likelihood of responding to drug therapy and guide a patient's dosing to ensure optimal treatment (personalized medicine), assess a patient's risk of disease progression and disease recurrence (prognostic medicine) or accurately diagnose disease (diagnostic medicine).

Our business strategy for future growth is focused on three key initiatives. First, we are working to grow and expand our existing products and markets. Second, we are developing our business internationally and have recently established operations in Europe and Canada. Finally, we are launching and intend to continue to launch new potentially transformative products across a diverse set of disease indications, complementing our current businesses in oncology, women's health, urology and dermatology.

On February 2, 2014, we entered into a definitive agreement and plan of merger (the "Merger Agreement") to purchase Crescendo Bioscience, Inc. ("Crescendo") for \$270 million in cash, subject to adjustment for Crescendo's cash, indebtedness, working capital and other amounts to be determined in accordance with the Merger Agreement. We currently anticipate that the merger will be completed by the end of our fiscal year 2014, subject to regulatory clearance and the satisfaction of customary closing conditions and the other terms and conditions of the Merger Agreement. We believe that this acquisition represents an attractive opportunity because (i) it facilitates our entry into the high growth autoimmune market, (ii) it diversifies our product revenues and (iii) it enhances our strength in protein-based diagnostics.

#### *Products and Services*

We offer twelve commercial molecular diagnostic tests, including seven predictive medicine tests, two personalized medicine tests, and two prognostic medicine tests and one diagnostic medicine test. We market these tests in the United States through our own sales force of approximately 400 people. We have also established commercial laboratory operations in Munich, Germany and international headquarters in Zurich, Switzerland. We currently market our BRACAnalysis<sup>®</sup>, COLARIS<sup>®</sup>, COLARIS AP<sup>®</sup>, and Prolaris<sup>®</sup> products through our own sales force in Europe and Canada and have entered into distributor agreements with organizations in select Latin American, Middle Eastern, Asian and African countries.

Our twelve commercial molecular diagnostic tests include:



*Myriad myRisk™* Hereditary Cancer, our predictive medicine test for hereditary cancers;

*Myriad myPlan™* Lung Cancer, our prognostic medicine test for predicting the aggressiveness of lung cancer;

*Myriad myPath™* Melanoma, our diagnostic medicine test for the difficult cases of melanoma;

*BRACAnalysis®*, our predictive medicine test for hereditary breast and ovarian cancer;

*COLARIS®*, our predictive medicine test for hereditary colorectal and uterine cancer;

*COLARIS AP®*, our predictive medicine test for hereditary colorectal cancer;

*MELARIS®*, our predictive medicine test for hereditary melanoma;

*PANEXIA* , our predictive medicine test for pancreatic cancer;

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*PREZEON*<sup>®</sup>, our personalized medicine test to assess PTEN status for disease progression and drug response;

*Prolaris*<sup>®</sup>, our prognostic medicine test for prostate cancer;

*Theraguide*<sup>®</sup> 5-FU, our personalized medicine test for chemotherapy toxicity to 5-FU; and

*BART*<sup>™</sup>, our predictive medicine test for detecting large genomic rearrangements involved in hereditary breast and ovarian cancer.

On September 3, 2013, we launched Myriad myRisk<sup>™</sup> Hereditary Cancer to physician thought leaders as part of a staged product rollout. We began expanding physician access to Myriad myRisk Hereditary Cancer on January 1, 2014. On October 29, 2013, we launched Myriad myPlan Lung Cancer to leading oncologists throughout the United States and on November 12, 2013, we launched Myriad myPath Melanoma through an early-access program that will introduce the test to leading dermatopathologists across the country. We intend to expand access to Myriad myPlan Lung Cancer and Myriad myPath Melanoma throughout the remainder of our fiscal year ending June 30, 2014.

Through our wholly owned subsidiary, Myriad RBM, Inc., we provide biomarker discovery and companion diagnostic services to the pharmaceutical, biotechnology, and medical research industries utilizing our multiplexed immunoassay technology. Our technology enables us to efficiently screen large sets of clinical samples from both diseased and non-diseased populations against our extensive menu of protein biomarkers. By analyzing the data generated from these tests, we attempt to discover biomarker patterns that may be used to identify patients who would likely respond to a particular therapy. In addition to the companion diagnostic research revenue received from analyzing these samples, we also use this information to create and validate new biomarkers that can aid us in the development of our own novel molecular diagnostic tests that could aid a physician in making diagnostic and treatment decisions.

### *Use of Resources*

During the three and six months ended December 31, 2013, we devoted our resources to supporting and growing our molecular diagnostic and companion diagnostic businesses, as well as to the research and development of future molecular and companion diagnostic candidates. We have three reportable operating segments—research, molecular diagnostics and companion diagnostics. See Note 6 Segment and Related Information in the notes to our condensed consolidated financial statements (unaudited) for information regarding these operating segments.

For the three and six months ended December 31, 2013, we had net income of \$50.4 million and \$105.8 million and diluted earnings per share of \$0.66 and \$1.33, compared to net income of \$35.0 million and \$65.2 million and diluted earnings per share of \$0.42 and \$0.78 per share in the same period in the prior year. Net income and diluted earnings per share results for the three and six months ended December 31, 2013 included income tax expense of \$33.8 million and \$62.1 million compared to \$21.9 million and \$41.6 million for the same period in the prior year.

### *Share Repurchase Program*

Between May 2010 and November 2013, we repurchased \$700 million of our outstanding common stock. In November 2013, we announced that our board of directors had authorized us to repurchase an additional \$300 million of our outstanding common stock and we have repurchased an additional \$26.7 million of our outstanding common stock under this repurchase plan as of December 31, 2013. During the three months ended December 31, 2013, we

repurchased \$77.8 million of our outstanding common stock under our prior and current programs. In connection with our stock repurchase program our board of directors authorized us to repurchase shares from time to time or on an accelerated basis through open market transactions or privately negotiated transactions as determined by our management. The amount and timing of stock repurchases under the program will depend on business and market conditions, stock price, trading restrictions, acquisition activity and other factors. See also Part II, Item 2. Unregistered Sales of Equity Securities and Use of Proceeds Issuer Purchases of Equity Securities.

### **Critical Accounting Policies**

Critical accounting policies are those policies which are both important to the presentation of a company's financial condition and results and require management's most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. No significant changes to our accounting policies took place during the period. For a further discussion of our critical accounting policies, see our Annual Report on Form 10-K for the fiscal year ended June 30, 2013.

**Table of Contents****Results of Operations for the Three Months Ended December 31, 2013 and 2012***Revenue*

Revenue is comprised of sales of our molecular diagnostic tests and our companion diagnostic services. Total revenue for the three months ended December 31, 2013 was \$204.1 million, compared to \$149.1 million for the same three months in 2012. This 37% increase in revenue is primarily due to increased molecular diagnostic testing volume for our BRACAnalysis, BART, Colaris and Colaris AP tests and our Myriad Hereditary Cancer test, which we launched during 2013, as disclosed in the table below. We believe that our increased sales, marketing, and education efforts resulted in wider acceptance of our molecular diagnostic tests by the medical community and increased patient testing volumes. The 7% decrease in companion diagnostic service revenue was due to changes and timing of customer projects year over year. There can be no assurance that our revenue will continue to increase or remain at current levels.

Total revenue of our molecular diagnostic tests and companion diagnostic services and revenue by product as a percent of total revenue for the three months ended December 31, 2013 and 2012 were as follows:

<i>(In thousands)</i>	Three months ended			% of Total Revenue	
	December 31, 2013	2012	% Change	2013	2012
<b>Molecular diagnostic testing revenue:</b>					
BRACAnalysis	\$ 141,228	\$ 110,267	28%	69%	74%
BART	24,698	15,781	57%	12%	10%
COLARIS & COLARIS AP	15,554	12,063	29%	8%	8%
Myriad myRisk	11,509		N/A	6%	N/A
Other	3,169	2,540	25%	1%	2%
<b>Total molecular diagnostic testing revenue</b>	<b>196,158</b>	<b>140,651</b>	<b>39%</b>		
Companion diagnostic service revenue	7,902	8,489	(7%)	4%	6%
<b>Total revenue</b>	<b>\$ 204,060</b>	<b>\$ 149,140</b>	<b>37%</b>	<b>100%</b>	<b>100%</b>

Our molecular diagnostic sales force is focused on two major markets, oncology and women's health. Oncology and women's health revenue was 52% and 48% of total molecular diagnostic testing revenue, respectively, during the three months ended December 31, 2013. Sales of molecular diagnostic tests in each market for the three months ended December 31, 2013 and 2012 were as follows:

<i>(In thousands)</i>	Three months ended		
	December 31, 2013	2012	% Change
<b>Molecular diagnostic testing revenue:</b>			
Oncology	\$ 101,592	\$ 90,857	12%
Women's health	94,566	49,794	90%

Total molecular diagnostic testing revenue	\$ 196,158	\$ 140,651	39%
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*Costs and Expenses*

Cost of revenue is comprised primarily of salaries and related personnel costs, laboratory supplies, royalty payments, equipment costs and facilities expense. Cost of molecular diagnostic testing revenue for the three months ended December 31, 2013 was \$22.8 million, compared to \$15.6 million for the same three months in 2012. This increase of 46% in molecular diagnostic testing cost of revenue is primarily due to the 39% increase in testing revenue and additional costs associated with processing samples from our three newly launched tests at levels which have not yet achieved economies

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of scale. Our costs of companion diagnostic services include similar items. Cost of companion diagnostic services for the three months ended December 31, 2013 was \$3.4 million, compared to \$4.3 million for the same three months in 2012. This 21% decrease in companion diagnostic testing cost of revenue is due to the 7% decrease in companion diagnostic revenue as well as increased efficiencies within the laboratory.

Our gross margins for molecular diagnostics were 88% at December 31, 2013 compared to 89% for the same three months of the prior year. Molecular diagnostic margins were impacted by the change in product mix primarily due to the launch of our three new molecular diagnostic tests. Our cost of revenue may continue to fluctuate from quarter to quarter based on the introduction of new molecular diagnostic tests such as Myriad myRisk Hereditary Cancer which was launched in September 2013, Myriad myPlan Lung Cancer which was launched in October 2013, and Myriad myPath Melanoma, which was launched in November 2013; testing volumes in both molecular diagnostic and companion diagnostic segments; changes in our costs associated with such tests and services and the adoption of new technologies and operating systems in our laboratories. There can be no assurance that gross profit margins will remain at current levels.

Our research and development expenses include costs incurred in maintaining and improving our current molecular diagnostic tests and costs incurred for the discovery, validation and development of our pipeline of molecular and companion diagnostic test candidates. Research and development expenses are comprised primarily of salaries and related personnel costs, laboratory supplies, clinical trial costs, equipment, and facilities costs. Research and development expenses incurred during the three months ended December 31, 2013 were \$17.1 million compared to \$14.1 million for same three months in 2012. This increase of 21% was primarily due to the following:

an increase of approximately \$4.2 million in internal development activities and clinical studies to support our existing and future molecular diagnostic testing products; and

a decrease of approximately \$1.2 million in internal development activities to support our companion diagnostic services business.

We expect that our research and development expenses as a percentage of revenues will be relatively flat over the next several years as we continue to develop our pipeline and expand our offerings of molecular diagnostic tests and companion diagnostic services.

Our sales, general and administrative expenses include costs associated with building our molecular diagnostic and companion diagnostic businesses domestically and internationally. Selling, general and administrative expenses consist primarily of salaries, commissions and related personnel costs for sales, marketing, customer service, billing and collection, executive, legal, finance and accounting, information technology, human resources, and allocated facilities expenses. Selling, general and administrative expenses for the three months ended December 31, 2013 were \$77.8 million, compared to \$59.6 million for the same three months in 2012. The increase in selling, general and administrative expense of 31% was due primarily to supporting the 37% increase in revenue and include:

an increase in sales and marketing expense of approximately \$11.4 million due to new marketing initiatives, added sales force headcount and increased sales commissions associated with the increase in revenue;

an increase of approximately \$2.9 million in bad debt expense;

an increase of approximately \$2.1 million in general administrative expenses to support our growth;

an increase of approximately \$1.3 million in international administrative costs to establish administrative and sales and marketing infrastructures;

an increase of approximately \$1.1 million in legal fees associated with various legal proceedings to enforce our intellectual property; and

a decrease of approximately \$0.6 million in administrative support for our companion diagnostic services business.

We expect that our selling, general and administrative expenses will continue to fluctuate from quarter to quarter and that such increases may be substantial, depending on the number and scope of any new molecular diagnostic and companion diagnostic launches, our efforts in support of our existing molecular diagnostic tests and companion diagnostic services, our litigation expenses as well as our continued international expansion efforts.

**Table of Contents***Other Income (Expense)*

Interest income was \$1.3 million for the three months ended December 31, 2013 compared to \$1.4 million for the three months ended December 31, 2012. Interest income consists primarily of interest income recorded from the note receivable from Crescendo Bioscience, Inc.

*Income Tax Provision*

Income tax expense for the three months ended December 31, 2013 was \$33.8 million, for an effective income tax rate of approximately 40%, compared to income tax expense of \$21.9 million or a 39% effective income tax rate in the same period in 2012. Our quarterly effective tax rate differs from the U.S. federal statutory rate of 35%, primarily due to a 4% state income tax impact and an approximate 1% impact from exclusion of certain losses incurred from our international operations. Certain significant or unusual items are separately recognized during the period in which they occur and can be a source of variability in the effective tax rates from quarter to quarter.

**Results of Operations for the Six Months Ended December 31, 2013 and 2012***Revenue*

Total revenue for the six months ended December 31, 2013 was \$406.5 million, compared to \$282.6 million for the same six months in 2012. This 44% increase in revenue is primarily due to increased molecular diagnostic testing volume for our BRACAnalysis, BART, Colaris and Colaris AP tests and our Myriad myRisk Hereditary Cancer test, which we launched in 2013, and an increase in companion diagnostic services due to increased research collaborations, as disclosed in the table below. We believe that our increased sales, marketing, and education efforts resulted in wider acceptance of our molecular diagnostic tests by the medical community and increased patient testing volumes.

Total revenue of our molecular diagnostic tests and companion diagnostic services and revenue by product as a percent of total revenue for the six months ended December 31, 2013 and 2012 were as follows:

<i>(In thousands)</i>	Six months ended		% Change	% of Total Revenue	
	December 31, 2013	December 31, 2012		2013	2012
<b>Molecular diagnostic testing revenue:</b>					
BRACAnalysis	\$ 290,807	\$ 215,239	35%	72%	76%
BART	49,470	23,404	111%	12%	8%
COLARIS & COLARIS AP	29,891	24,143	24%	7%	9%
Myriad myRisk	11,950		N/A	3%	N/A
Other	7,026	5,133	37%	2%	2%
<b>Total molecular diagnostic testing revenue</b>	<b>389,144</b>	<b>267,919</b>	<b>45%</b>		
Companion diagnostic service revenue	17,383	14,658	19%	4%	5%
<b>Total revenue</b>	<b>\$ 406,527</b>	<b>\$ 282,577</b>	<b>44%</b>	<b>100%</b>	<b>100%</b>



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Our molecular diagnostic sales force is focused on two major markets, oncology and women's health. Oncology and women's health revenue was 54% and 46% of total molecular diagnostic testing revenue, respectively, during the six months ended December 31, 2013. Sales of molecular diagnostic tests in each market for the six months ended December 31, 2013 and 2012 were as follows:

<i>(In thousands)</i>	Six months ended December 31,		
	2013	2012	% Change
<b>Molecular diagnostic testing revenue:</b>			
Oncology	\$ 209,917	\$ 174,232	20%
Women's health	179,227	93,687	91%
 Total molecular diagnostic testing revenue	 \$ 389,144	 \$ 267,919	 45%

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*Costs and Expenses*

Cost of molecular diagnostic testing revenue for the six months ended December 31, 2013 was \$44.2 million, compared to \$29.5 million for the same six months in 2012. This increase of 50% in molecular diagnostic testing cost of revenue is primarily due to the 45% increase in testing revenue. Cost of companion diagnostic services for the six months ended December 31, 2013 was \$7.4 million, compared to \$7.7 million for the same three months in 2012. This 4% decrease in companion diagnostic testing cost of revenue is due to increased efficiencies gained in our companion diagnostic laboratory. Gross margins for molecular diagnostics for the six months ended December 31, 2013 and December 31, 2012 were 89%.

Research and development expenses incurred during the six months ended December 31, 2013 were \$33.9 million compared to \$25.5 million for same six months in 2012. This increase of 33% was primarily due to the following:

an increase of approximately \$9.5 million in internal development activities and clinical studies to support our existing and future molecular diagnostic testing products;

an increase of \$2.0 million due to external research and development activities to develop proprietary technologies; and

a decrease of approximately \$3.1 million in internal development activities to support our companion diagnostic services business.

Selling, general and administrative expenses for the six months ended December 31, 2013 were \$155.1 million, compared to \$115.7 million for the same six months in 2012. The increase in selling, general and administrative expense of 34% was due primarily to supporting the 44% increase in revenue and include:

an increase in sales and marketing expense of approximately \$20.8 million due to new marketing initiatives, added sales force headcount and increased sales commissions associated with the increase in revenue;

an increase of approximately \$7.2 million in bad debt expense;

an increase of approximately \$6.0 million in general administrative expenses to support our growth;

an increase of approximately \$3.3 million in legal fees associated with various legal proceedings to enforce our intellectual property;

an increase of approximately \$2.7 million in international administrative costs to establish administrative and sales and marketing infrastructure; and

a decrease of approximately \$0.6 million in administrative fees associated with the companion diagnostic services business.

*Other Income (Expense)*

Interest income was \$2.7 million for the six months ended December 31, 2013 compared to \$2.8 million for the six months ended December 31, 2012. Interest income consists primarily of interest income recorded from the note receivable from Crescendo Bioscience, Inc.

*Income Tax Provision*

Income tax expense for the six months ended December 31, 2013 was \$62.1 million, for an effective income tax rate of approximately 37%, compared to income tax expense of \$41.6 million or a 39% effective income tax rate in the same

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period in 2012. Income tax expense for the six months ended December 31, 2013 is based on our estimated annual effective tax rate for the full fiscal year ending June 30, 2014 adjusted by discrete items recognized during the period. Our annual effective tax rate differs from the U.S. federal statutory rate of 35% primarily due to a 4% blended state income tax rate offset by a 2% impact from certain losses incurred by our international operations and certain discrete items that are required to be separately recognized during the quarter in which they occurred, including a deduction for the write-off of stock in a wholly-owned subsidiary recently divested. Certain significant or unusual items are separately recognized during the period in which they occur and can be a source of variability in the effective tax rates from period to period.

## **Liquidity and Capital Resources**

Cash, cash equivalents, and marketable investment securities were \$488.8 million at December 31, 2013 compared to \$531.1 million at June 30, 2013, which is a decrease of \$42.3 million, or 8%. This decrease in cash, cash equivalents and marketable investment securities was attributable to the purchase of \$180.1 million of our common stock under our share repurchase programs offset by cash collections from molecular and companion diagnostic sales.

Net cash provided by operating activities was \$138.0 million during the six months ended December 31, 2013, compared to \$73.5 million during the same six months in 2012. Our cash from operations was impacted by non-cash charges in the form of share-based compensation and depreciation and amortization, which totaled \$13.8 million and \$4.8 million, respectively, during the six months ended December 31, 2013.

Net cash provided by investing activities was \$2.7 million during the six months ended December 31, 2013 compared to net cash used in investing activities of \$39.0 million during the same six months in 2012. Investing activities were comprised of capital expenditures for equipment and facilities of \$8.1 million, offset by net proceeds from maturity of marketable investment securities of \$10.8 million.

Financing activities used cash of \$173.2 million during the six months ended December 31, 2013 and \$52.4 million in the same six months in 2012. Cash utilized in financing activities during the six months ended December 31, 2013 was primarily due to the purchase of \$180.1 million of our common stock through our share repurchase programs, partially offset by \$6.4 million from cash provided primarily by the exercise of stock options.

We believe that our existing capital resources and net cash expected to be generated from sales of our molecular diagnostic tests and companion diagnostic services will be adequate to fund our current and planned operations for the next several years, although no assurance can be given that changes will not occur that would consume available capital resources more quickly than we currently expect and that we may need or want to raise additional funds. Our future capital requirements, cash flows, and results of operations could be affected by and will depend on many factors that are currently unknown to us, including:

- our anticipated acquisition of Crescendo Biosciences, Inc., including the costs associated with such acquisition and our ability to successfully integrate and achieve the expected benefits of the acquisition;

- failure to sustain revenue growth or margins in our molecular diagnostic testing and companion diagnostic services businesses;

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increased competition in our major markets or the introduction of technological innovations or new commercial tests by our competitors;

changes in the government regulatory approval process for our tests;

timing and amount of repurchases of our common stock;

termination of the licenses underlying our molecular diagnostic tests and companion diagnostic services or failure to enter into product or technology licensing or other arrangements favorable to us;

delays or other problems with operating our laboratory facilities;

costs and expenses incurred in supporting our existing molecular diagnostic tests and companion diagnostic services;

progress, results and cost of developing and launching additional molecular diagnostic tests and offering additional companion diagnostic services;

potential business development activities, in-licensing agreements and acquisitions;

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progress, results and costs of our international expansion efforts;

costs, timing, outcome, and enforcement of any regulatory review of our existing or future molecular diagnostic tests and companion diagnostic services;

costs of preparing, filing and prosecuting patent applications, maintaining and enforcing our issued patents and defending intellectual property-related claims;

costs, timing and outcome of any litigation that we are pursuing or against us;

changes in intellectual property laws covering our molecular diagnostic tests and companion diagnostic services and patents or enforcement in the United States and foreign countries;

changes in the governmental or private insurers reimbursement levels for our tests; and

changes in structure of the healthcare system or healthcare payment systems.

## **Effects of Inflation**

We do not believe that inflation has had a material impact on our business, sales, or operating results during the periods presented.

## **Certain Factors That May Affect Future Results of Operations**

The Securities and Exchange Commission encourages companies to disclose forward-looking information so that investors can better understand a company's future prospects and make informed investment decisions. This Quarterly Report on Form 10-Q contains such forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995.

Words such as may, anticipate, estimate, expects, projects, intends, plans, believes and words and terms of substance used in connection with any discussion of future operating or financial performance, identify forward-looking statements. All forward-looking statements are management's present expectations of future events and are subject to a number of risks and uncertainties that could cause actual results to differ materially and adversely from those described in the forward-looking statements. These risks include, but are not limited to: the risk that sales and profit margins of our existing molecular diagnostic tests and companion diagnostic services may decline or will not continue to increase at historical rates; risks related to changes in the governmental or private insurers reimbursement levels for our tests; risks related to increased competition and the development of competing test and services; the risk that we may be unable to develop or achieve commercial success for additional molecular diagnostic tests and companion diagnostic services in a timely manner, or at all; the risk that we may not successfully develop new markets for our molecular diagnostic tests and companion diagnostic services, including our ability to successfully generate revenue outside the United States; the risk that licenses to the technology underlying our molecular diagnostic tests and companion diagnostic services tests and any future tests are terminated or cannot be maintained on satisfactory terms; risks related to delays or other problems with operating our laboratory testing

facilities; risks related to public concern over our genetic testing in general or our tests in particular; risks related to regulatory requirements or enforcement in the United States and foreign countries and changes in the structure of the healthcare system or healthcare payment systems; risks related to our ability to obtain new corporate collaborations or licenses and acquire new technologies or businesses on satisfactory terms, if at all; risks related to our ability to successfully integrate and derive benefits from any technologies or businesses that we license or acquire; the risk that we or our licensors may be unable to protect the proprietary technologies underlying our tests; the risk of patent-infringement claims or challenges to the validity of our patents or other intellectual property; risks of new, changing and competitive technologies and regulations in the United States and internationally; and other factors discussed under the heading Risk Factors contained in Item 1A of our Annual Report on Form 10-K for the fiscal year ended June 30, 2013, which has been filed with the Securities and Exchange Commission, as well as any updates to those risk factors filed from time to time in our Quarterly Reports on Form 10-Q or Current Reports on Form 8-K.

In light of these assumptions, risks and uncertainties, the results and events discussed in the forward-looking statements contained in this Quarterly Report or in any document incorporated by reference might not occur. Stockholders are cautioned not to place undue reliance on the forward-looking statements, which speak only as of the date of this Quarterly Report. We are not under any obligation, and we expressly disclaim any obligation, to update or alter any forward-looking statements, whether as a result of new information, future events or otherwise. All subsequent forward-looking statements attributable to us or to any person acting on our behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this section.

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

There have been no material changes in our market risk during the three and six months ended December 31, 2013 compared to the disclosures in Part II, Item 7A of our Annual Report on Form 10-K for the fiscal year ended June 30, 2013, which is incorporated by reference herein.

**Item 4. Controls and Procedures**

- (a) *Evaluation of Disclosure Controls and Procedures.* Our principal executive officer and principal financial officer, after evaluating the effectiveness of our disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of the end of the period covered by this Quarterly Report on Form 10-Q, have concluded that, based on such evaluation, our disclosure controls and procedures were effective to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and communicated to our management, including our principal executive and principal financial officers, or persons performing similar functions, as appropriate, to allow timely decisions regarding required disclosure.

In designing and evaluating our disclosure controls and procedures, our management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and our management necessarily is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

- (b) *Changes in Internal Controls.* There were no changes in our internal control over financial reporting identified in connection with the evaluation of such internal control that occurred during our last fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.



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**PART II - Other Information**

**Item 1. Legal Proceedings**

*Background*

Following the U.S. Supreme Court decision in June 2013 in *Association for Molecular Pathology et al. v. Myriad Genetics, Inc. et al.*, several companies have commenced offering clinical diagnostic and genomic laboratory services, including the testing and analysis of the BRCA1 and BRCA2 genes, that purport to compete with our BRCAAnalysis testing and services. We believe that these tests and services infringe various patent claims that we own or have exclusively licensed from the University of Utah Research Foundation, HSC Research and Development Limited Partnership (and affiliate of Hospital For Sick Children), the Trustees of the University of Pennsylvania, and Endorecherche, Inc. (collectively, the Patent Owners). Under our license agreements with the Patent Owners, we are responsible for pursuing these patent infringement litigations, defending any counterclaims and paying related costs. Accordingly, we have commenced several lawsuits alleging that these companies infringe various patent claims owned by Myriad and the Patent Owners and have received several complaints or counterclaims from these companies seeking declaratory judgment that they do not infringe various patent claims owned by Myriad and the Patent Owners and that these patent claims are invalid.

There have been no material developments in the legal proceedings involving Ambry Genetics Corporation, Gene by Gene LTD, Counsyl, Inc., Quest Diagnostics Incorporated and Quest Diagnostics Nichols Institute and GeneDX, Inc. disclosed in Part II, Item 1 of our Quarterly Report on Form 10-Q for the fiscal quarter ending September 30, 2013, except as follows:

*Invitae Corporation*

On November 25, 2013, Myriad and the Patent Owners filed a complaint against Invitae Corporation (Invitae) in the United States District Court for the District of Utah, Central Division, alleging that Invitae's testing services related to the BRCA1 and BRCA2 genes infringe various patent claims owned by Myriad and the Patent Owners, and seeking an injunction against Invitae from selling any product or service that infringes the claims of these patents. On December 9, 2013, Invitae filed a motion to dismiss the complaint for lack of personal jurisdiction. On November 26, 2013, Invitae filed a complaint for declaratory judgment against Myriad Genetics, Inc. in the United States District Court for the Northern District of California, seeking a judgment that Invitae has not infringed, and is not infringing, various patent claims owned by Myriad and the Patent Owners relating to BRCA testing, and a judgment that various patent claims owned by Myriad and the Patent Owners are invalid. No responsive pleading to the complaint has yet been filed. Myriad and the Patent Owners intend to vigorously enforce their patent rights against Invitae.

*Laboratory Corporation of America Holdings*

On December 3, 2013, Myriad and the Patent Owners filed a Complaint against Laboratory Corporation of America Holdings (LabCorp) in the United States District Court for the District of Utah, Central Division, alleging that LabCorp's testing services infringe various patent claims owned by Myriad and the Patent Owners which relate to the BRCA1 and BRCA2 genes, and seek an injunction against LabCorp from selling any product or service which infringes the claims of the patents asserted. On January 23, 2014, LabCorp filed its answer and affirmative defenses to the Complaint. Myriad and the Patent Owners intend to vigorously enforce their patent rights against LabCorp.

Other than as set forth above, we are not a party to any legal proceedings that we believe will have a material impact on our business, financial position or results of operations.

**Item 1A. Risk Factors**

There have been no material changes to the risk factors included in our Annual Report on Form 10-K for the fiscal year ended June 30, 2013.

**Table of Contents****Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.****Issuer Purchases of Equity Securities**

In November 2013, we completed our stock repurchase authorization for \$200 million, which was approved in February 2013. In November 2013, our board of directors authorized a new stock repurchase program for \$300 million. We are authorized to complete the repurchase from time to time or on an accelerated basis through open market transactions or privately negotiated transactions as determined by the Company's management. The amount and timing of stock repurchases under the program will depend on business and market conditions, stock price, trading restrictions, acquisition activity and other factors.

The details of the activity under our stock repurchase programs during the fiscal quarter ended December 31, 2013 were as follows:

**Issuer Purchases of Equity Securities**

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
October 1, 2013 to October 31, 2013	1,871,118	\$ 24.58	1,871,118	\$ 5,064,869
November 1, 2013 to November 30, 2013	371,228	\$ 25.74	371,228	295,508,423
December 1, 2013 to December 31, 2013	943,119	\$ 23.59	943,119	273,255,921
Total	3,185,465		3,185,465	\$ 273,255,921

**Item 3. Defaults Upon Senior Securities.**

None.

**Item 4. Mine Safety Disclosures.**

None.

**Item 5. Other Information.**

None.

**Item 6. Exhibits.**

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- 10.1\$ Myriad Genetics, Inc. 2010 Employee, Director and Consultant Equity Incentive Plan, as amended (previously filed as Exhibit 10.1 to the Current Report on Form 8-K on December 6, 2013 (File No. 000-26642) and incorporated herein by reference).
  - 31.1 Certification of Chief Executive Officer pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002.
  - 31.2 Certification of Chief Financial Officer pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002.
  - 32.1 Certifications pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
  - 101 The following materials from Myriad Genetics, Inc. s Quarterly Report on Form 10-Q for the quarter ended December 31, 2013, formatted in XBRL (Extensible Business Reporting Language): (i) the unaudited Condensed Consolidated Balance Sheets, (ii) the unaudited Condensed Consolidated Statements of Income and Comprehensive Income, (iii) the unaudited Condensed Consolidated Statements of Cash Flows, and (iv) Notes to Condensed Consolidated Financial Statements.
- \$ Management contract or compensatory plan or arrangement

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

MYRIAD GENETICS, INC.

Date: February 5, 2014

By: /s/ Peter D. Meldrum  
Peter D. Meldrum  
President and Chief Executive  
Officer  
(Principal executive officer)

Date: February 5, 2014

By: /s/ James S. Evans  
James S. Evans  
Chief Financial Officer  
(Principal financial and chief  
accounting officer)