

MYRIAD GENETICS INC  
Form 10-Q  
February 04, 2015  
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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, 2014**

**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</b>	<b>87-0494517</b> <b>(I.R.S. Employer</b>
<b>of 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 29, 2014 the registrant had 71,118,496 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, 2014	June 30, 2014
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 59,709	\$ 64,821
Restricted cash	22,138	
Marketable investment securities	105,406	121,641
Prepaid expenses	7,694	6,921
Inventory	20,173	23,919
Trade accounts receivable, less allowance for doubtful accounts of \$7,929 at December 31, 2014 and \$8,968 at June 30, 2014	81,222	81,297
Deferred taxes	12,813	6,445
Prepaid taxes	5,602	13,609
Other receivables	5,331	3,770
<b>Total current assets</b>	<b>320,088</b>	<b>322,423</b>
Equipment and leasehold improvements:		
Equipment	95,349	80,685
Leasehold improvements	18,913	18,922
	114,262	99,607
Less accumulated depreciation	67,804	65,013
<b>Net equipment and leasehold improvements</b>	<b>46,458</b>	<b>34,594</b>
Long-term marketable investment securities	42,300	84,124
Long-term deferred taxes		3,180
Other assets	5,000	5,000
Intangibles, net	198,827	205,312
Goodwill	169,181	169,181
<b>Total assets</b>	<b>\$ 781,854</b>	<b>\$ 823,814</b>
<b>Liabilities and Stockholders Equity</b>		
Current liabilities:		
Accounts payable	\$ 16,833	\$ 23,078
Accrued liabilities	41,180	56,410
Deferred revenue	1,824	1,090
<b>Total current liabilities</b>	<b>59,837</b>	<b>80,578</b>
Long-term deferred taxes	2,450	

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Unrecognized tax benefits	25,326	24,238
<b>Total liabilities</b>	<b>87,613</b>	<b>104,816</b>
Stockholders' equity:		
Preferred stock, \$0.01 par value, authorized 5,000 shares, no shares issued and outstanding		
Common stock, \$0.01 par value, authorized 150,000 shares at December 31, 2014 and June 30, 2014, issued and outstanding 71,518 at December 31, 2014 and 73,497 at June 30, 2014	719	735
Additional paid-in capital	734,679	717,774
Accumulated other comprehensive loss	(4,182)	(1,515)
Accumulated (deficit)/retained earnings	(36,975)	2,004
<b>Total stockholders' equity</b>	<b>694,241</b>	<b>718,998</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 781,854</b>	<b>\$ 823,814</b>

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,	
	2014	2013	2014	2013
Molecular diagnostic testing	\$ 179,149	\$ 196,158	\$ 343,656	\$ 389,144
Pharmaceutical and clinical services	5,244	7,902	9,574	17,383
<b>Total revenue</b>	<b>184,393</b>	<b>204,060</b>	<b>353,230</b>	<b>406,527</b>
Costs and expenses:				
Cost of molecular diagnostic testing	35,050	22,755	67,847	44,194
Cost of pharmaceutical and clinical services	2,802	3,376	4,870	7,418
Research and development expense	17,504	17,090	40,116	33,893
Selling, general, and administrative expense	92,695	77,840	178,135	155,119
<b>Total costs and expenses</b>	<b>148,051</b>	<b>121,061</b>	<b>290,968</b>	<b>240,624</b>
Operating income	36,342	82,999	62,262	165,903
Other income (expense):				
Interest income	85	1,330	140	2,691
Other income (expense)	1,513	(185)	1,416	(623)
<b>Total other income</b>	<b>1,598</b>	<b>1,145</b>	<b>1,556</b>	<b>2,068</b>
Income before income taxes	37,940	84,144	63,818	167,971
Income tax provision	13,909	33,784	23,805	62,146
<b>Net income</b>	<b>\$ 24,031</b>	<b>\$ 50,360</b>	<b>\$ 40,013</b>	<b>\$ 105,825</b>
Earnings per share:				
Basic	\$ 0.33	\$ 0.67	\$ 0.55	\$ 1.37
Diluted	\$ 0.32	\$ 0.66	\$ 0.53	\$ 1.33
Weighted average shares outstanding				
Basic	72,467	75,070	72,615	77,323
Diluted	75,401	76,825	75,755	79,312
Comprehensive income:				
Net income	\$ 24,031	\$ 50,360	\$ 40,013	\$ 105,825
Unrealized gain (loss) on available-for-sale securities, net of tax	(145)	253	(277)	538
Change in foreign currency translation adjustment, net of tax	(1,669)	(112)	(2,390)	392
<b>Comprehensive income</b>	<b>\$ 22,217</b>	<b>\$ 50,501</b>	<b>\$ 37,346</b>	<b>\$ 106,755</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 December 31,	
	2014	2013
<b>Cash flows from operating activities:</b>		
Net income	\$ 40,013	\$ 105,825
<b>Adjustments to reconcile net income to net cash provided by operating activities:</b>		
Depreciation and amortization	11,990	4,811
Loss (gain) on disposition of assets	(16)	40
Share-based compensation expense	19,028	13,792
Bad debt expense	13,959	21,793
Accreted interest on note receivable		(1,333)
Unrecognized tax benefits	1,088	2,600
Excess tax benefit from share-based compensation	(2,629)	(592)
Gain on remeasurement of foreign currency	(535)	
Deferred income taxes	1,891	(1,826)
<b>Changes in operating assets and liabilities:</b>		
Prepaid expenses	(773)	1,807
Trade accounts receivable	(13,886)	(11,597)
Other receivables	(1,561)	(172)
Prepaid taxes	8,007	
Inventory	3,746	
Accounts payable	(6,245)	(536)
Accrued liabilities	(15,233)	1,510
Deferred revenue	734	1,909
<b>Net cash provided by operating activities</b>	<b>59,578</b>	<b>138,031</b>
<b>Cash flows from investing activities:</b>		
Capital expenditures for equipment and leasehold improvements	(17,448)	(8,098)
Restricted cash	(21,603)	
Purchases of marketable investment securities	(22,623)	(102,661)
Proceeds from maturities and sales of marketable investment securities	80,502	113,032
<b>Net cash provided by investing activities</b>	<b>18,828</b>	<b>2,273</b>
<b>Cash flows from financing activities:</b>		
Net proceeds from common stock issued under share-based compensation plans	20,195	6,362
Excess tax benefit from share-based compensation	2,629	592
Repurchase and retirement of common stock	(103,952)	(180,124)
<b>Net cash used in financing activities</b>	<b>(81,128)</b>	<b>(173,170)</b>



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Effect of foreign exchange rates on cash and cash equivalents	(2,390)	392
Net decrease in cash and cash equivalents	(5,112)	(32,474)
Cash and cash equivalents at beginning of period	64,821	104,073
Cash and cash equivalents at end of period	\$ 59,709	\$ 71,599

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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, 2014, included in the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2014. Operating results for the three and six months ended December 31, 2014 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. For the six months ended December 31, 2013, a reclassification from proceeds from maturities and sales of marketable securities was made to the effect of foreign exchange rates on cash and cash equivalents in the condensed consolidated statement of cash flows to conform to current-year 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, 2014 and June 30, 2014 were as follows:

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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 December 31, 2014:</b>				
<b>Cash and cash equivalents:</b>				
Cash	\$ 57,010	\$	\$	\$ 57,010
Cash equivalents	2,699			2,699
Restricted cash	22,138			22,138
<b>Total cash, cash equivalents and restricted cash</b>	<b>81,847</b>			<b>81,847</b>
<b>Available-for-sale securities:</b>				
Corporate bonds and notes	45,181	5	(18)	45,168
Municipal bonds	83,506	141	(40)	83,607
Federal agency issues	18,933	2	(4)	18,931
<b>Total available-for-sale securities</b>	<b>147,620</b>	<b>148</b>	<b>(62)</b>	<b>147,706</b>
<b>Total cash, cash equivalents, restricted cash and available-for-sale securities</b>	<b>\$ 229,467</b>	<b>\$ 148</b>	<b>\$ (62)</b>	<b>\$ 229,553</b>

<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, 2014:</b>				
<b>Cash and cash equivalents:</b>				
Cash	\$ 45,181	\$	\$	\$ 45,181
Cash equivalents	19,639	1		19,640
<b>Total cash and cash equivalents</b>	<b>64,820</b>	<b>1</b>		<b>64,821</b>
<b>Available-for-sale securities:</b>				
Corporate bonds and notes	44,449	36	(11)	44,474
Municipal bonds	137,821	334	(3)	138,152
Federal agency issues	23,134	12	(7)	23,139
<b>Total available-for-sale securities</b>	<b>205,404</b>	<b>382</b>	<b>(21)</b>	<b>205,765</b>
<b>Total cash, cash equivalents and available-for-sale securities</b>	<b>\$ 270,224</b>	<b>\$ 383</b>	<b>\$ (21)</b>	<b>\$ 270,586</b>

Cash, cash equivalents, restricted cash, and maturities of debt securities classified as available-for-sale securities are as follows at December 31, 2014:

<i>(In thousands)</i>	<b>Amortized cost</b>	<b>Estimated fair value</b>
Cash	\$ 57,010	\$ 57,010
Cash equivalents	2,699	2,699
Restricted cash	22,138	22,138
Available-for-sale:		
Due within one year	105,370	105,406
Due after one year through five years	42,250	42,300
Due after five years		
	\$ 229,467	\$ 229,553

The Company has restricted cash of \$22.1 million at December 31, 2014. Restricted cash consists of a pledged account for a specific contractual arrangement and is subject to certain contingences that must be met in the future.

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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, 2014, 1,809,802 shares were available for issuance. In addition, as of December 31, 2014, the Company may grant up to 4,496,736 additional shares under the 2010 Plan if options previously granted under the Company's terminated 2003 Employee, Director and Consultant Option 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. Stock options granted under the plan prior to December 5, 2012 generally vest ratably over four years and expire ten years from the grant date. Stock 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. In September 2014, the Company began issuing restricted stock units (RSUs) which vest ratably over four years on the anniversary date of the grant in lieu of stock options to all employees and directors. The number of RSUs awarded to certain executive officers may be reduced if certain additional functional performance metrics are not met.

*Stock Options*

A summary of the stock option activity under the Company's plans for the six months ended December 31, 2014 is as follows:

	<b>Number of shares</b>	<b>Weighted average exercise price</b>
Options outstanding at June 30, 2014	14,238,603	\$ 23.30
Options granted	1,000	37.17
Less:		
Options exercised	873,774	19.91
Options canceled or expired	254,087	25.75
Options outstanding at December 31, 2014	13,111,742	\$ 23.48

As of December 31, 2014, options to purchase 8,803,382 shares were vested and exercisable at a weighted average price of \$22.64.

As of December 31, 2014, there was \$28.7 million of total unrecognized share-based compensation expense related to stock options that will be recognized over a weighted-average period of 1.92 years.

*Restricted Stock Units*

A summary of the RSU activity under the Company's plans for the six months ended December 31, 2014 is as follows:



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	Number of shares	Weighted average grant date fair value
RSUs outstanding at June 30, 2014		\$
RSUs granted	1,179,633	37.85
Less:		
RSUs vested		
RSUs canceled	79,450	38.12
RSUs outstanding at December 31, 2014	1,100,183	\$ 37.84

The grant date fair value of an RSU equals the closing price of our common stock on the grant date. The weighted average grant date fair value for the six months ended December 31, 2014 is \$37.85. As of December 31, 2014, no RSUs were vested.

As of December 31, 2014, there was \$31.3 million of total unrecognized share-based compensation expense related to RSUs that will be recognized over a weighted-average period of 2.98 years. This unrecognized compensation expense is equal to the fair value of RSUs expected to vest.

*Employee Stock Purchase Plan*

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, 2014, approximately 334,000 shares of common stock have been issued under the 2012 Purchase Plan and approximately 1,666,000 were available for issuance.

*Share-Based Compensation Expense*

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

<i>(In thousands)</i>	Three months ended		Six months ended	
	December 31, 2014	2013	December 31, 2014	2013
Cost of molecular diagnostic testing	\$ 249	\$ 209	\$ 447	\$ 432
Cost of pharmaceutical and clinical services	123	74	283	137
Research and development expense	1,252	846	2,017	1,627
Selling, general, and administrative expense	10,523	5,728	16,281	11,596
<b>Total share-based compensation expense</b>	<b>\$ 12,147</b>	<b>\$ 6,857</b>	<b>\$ 19,028</b>	<b>\$ 13,792</b>

In October 2014 the Company and its former Chief Financial Officer entered into a resignation agreement under which the vesting of certain awards were modified such that the specified awards were vested in full. As a result of this award modification the company recognized approximately \$3.1 million in share-based compensation expense for

the three and six months ending December 31, 2014.

(4) Stockholders Equity  
*Share Repurchase Program*

In November 2013, the Company's Board of Directors authorized a 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, acquisition activity and other factors. As of December 31, 2014, approximately \$61.7 million remained available for repurchases under the current program.



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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, 2014 and 2013 were as follows:

<i>(In thousands)</i>	December 31,		December 31,	
	2014	2013	2014	2013
Shares purchased and retired	1,733	3,185	2,950	6,991
Common stock and additional paid-in-capital reductions	\$ 14,765	\$ 25,096	\$ 24,960	\$ 55,036
Charges to retained earnings	\$ 43,559	\$ 52,713	\$ 78,992	\$ 125,088

**(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, 2014	2013	December 31, 2014	2013
Denominator:				
Weighted-average shares outstanding used to compute basic earnings per share	72,467	75,070	72,615	77,323
Effect of dilutive common stock equivalents	2,934	1,755	3,140	1,989
Weighted-average shares outstanding and dilutive securities used to compute diluted earnings per share	75,401	76,825	75,755	79,312

Certain outstanding stock options and RSUs were excluded from the computation of diluted earnings per share for the three and six months ended December 31, 2014 and 2013 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, 2014	2013	December 31, 2014	2013
Anti-dilutive options and RSUs excluded from EPS computation	844	8,500	39	7,136

**(6) Segment and Related Information**

The Company's business units have been aggregated into three reportable segments: (i) research, (ii) molecular diagnostics and (iii) pharmaceutical and clinical services. 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

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disease progression and disease recurrence. The pharmaceutical and clinical services 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.

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

<i>(In thousands)</i>	Molecular diagnostics	Pharmaceutical & clinical services	Research	Total
<b>Three months ended December 31, 2014:</b>				
Revenue	\$ 179,149	5,244		\$ 184,393
Depreciation and amortization	4,991	450	595	6,036
Segment operating income (loss)	59,017	(1,011)	(21,664)	36,342
<b>Three months ended December 31, 2013:</b>				
Revenue	\$ 196,158	7,902		\$ 204,060
Depreciation and amortization	1,467	489	482	2,438
Segment operating income (loss)	98,233	1,052	(16,286)	82,999
<b>Six months ended December 31, 2014:</b>				
Revenue	\$ 343,656	9,574		\$ 353,230
Depreciation and amortization	9,969	899	1,122	11,990
Segment operating income (loss)	104,101	(2,794)	(39,045)	62,262
<b>Six months ended December 31, 2013:</b>				
Revenue	\$ 389,144	17,383		\$ 406,527
Depreciation and amortization	2,830	989	992	4,811
Segment operating income (loss)	195,981	2,889	(32,967)	165,903

<i>(In thousands)</i>	Three months ended December 31,		Six months ended December 31,	
	2014	2013	2014	2013
Total operating income for reportable segments	\$ 36,342	\$ 82,999	\$ 62,262	\$ 165,903
Interest income	85	1,330	140	2,691
Other	1,513	(185)	1,416	(623)
Income tax provision	13,909	33,784	23,805	62,146
Net income	\$ 24,031	\$ 50,360	\$ 40,013	\$ 105,825

**(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.

All 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

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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, 2014:				
Money market funds (a)	\$ 2,699	\$	\$	\$ 2,699
Corporate bonds and notes		45,167		45,167
Municipal bonds		83,608		83,608
Federal agency issues		18,931		18,931
Total	\$ 2,699	\$ 147,706	\$	\$ 150,405

<i>(In thousands)</i>	Level 1	Level 2	Level 3	Total
at June 30, 2014:				
Money market funds (a)	\$ 13,634	\$	\$	\$ 13,634
Corporate bonds and notes		44,474		44,474
Municipal bonds		144,158		144,158
Federal agency issues		23,139		23,139
Total	\$ 13,634	\$ 211,771	\$	\$ 225,405

(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, 2014 was \$13.9 million, or approximately 37% of pre-tax income, compared to \$33.8 million, for the three months ended December 31, 2013, or approximately 40% of pre-tax income. Income tax expense for the six months ended December 31, 2014 was \$23.8 million, or approximately 37% of pre-tax income, compared to \$62.1 million, or approximately 37% of pre-tax income. Income tax expense for the three and six months ended December 31, 2014 is based on the Company's estimated annual effective tax rate for the full fiscal year ending June 30, 2015, adjusted by discrete items recognized during the period. For the three months ended December 31, 2014, 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 and the impact from the exclusion of certain losses incurred from our international operations offset by the benefits realized from the timing differences related to the recognition of the tax effect of equity compensation expense from incentive stock options and the deduction realized when those options are disqualified upon exercise and sale.

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The Company files U.S., foreign and state income tax returns in jurisdictions with various statutes of limitations. The Company's New Jersey State income tax returns for the years ended June 30, 2007 through 2013 are currently under examination by the New Jersey State Department of Taxation and Finance. 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 and other state tax returns are not currently under examination.

**Table of Contents****(9) Acquisition**

On February 28, 2014, the Company completed the acquisition of privately-held Crescendo Bioscience, Inc. ( Crescendo ), pursuant to an Amended and Restated Agreement and Plan of Merger, dated February 2, 2014 (the Merger Agreement ). Pursuant to the terms of the Merger Agreement, Myriad acquired Crescendo for total consideration of \$259.0 million.

The following table reconciles consideration transferred to the total cash paid to acquire Crescendo:

*(In thousands)*

Total consideration transferred	\$ 258,950
Share-based compensation to Crescendo employees	6,929
Change of control payments to Crescendo employees	5,695
Offset: Non-cash fair value purchase option	(8,000)
<b>Total cash paid</b>	<b>\$ 263,574</b>

The total consideration of \$259 million consisted of (i) \$225.1 million in cash, (ii) \$25.9 million in elimination of intercompany balances related to accrued interest and the term loan the Company issued to Crescendo on September 8, 2011, and (iii) \$8 million related to the fair value of the purchase option granted to the Company on September 8, 2011 by Crescendo through a definitive merger agreement ( Option Agreement ) entered into in association with the term note. Of the cash consideration, \$20 million was deposited into an escrow account to fund (i) any post-closing adjustments payable to Myriad based upon differences between the estimated working capital and the actual working capital of Crescendo at closing, and (ii) any indemnification claims made by Myriad against Crescendo, for a period of time, based upon the completion of an audit of Crescendo s financial statements, of no fewer than twelve nor more than fifteen months following closing.

Of the total cash paid, \$6.9 million was accounted for as share-based compensation expense resulting from the accelerated vesting of employee options immediately prior to the acquisition and \$5.7 million was accounted for as change of control bonuses paid to Crescendo employees and directors. The Company recognized the share-based compensation expense and change of control bonuses in post-acquisition consolidated statements of comprehensive income for the year ended June 30, 2014.

Total consideration transferred was allocated to tangible and identifiable intangible assets acquired and liabilities assumed based on their preliminary fair values at the acquisition date as set forth below. The Company believes that the acquisition of Crescendo facilitates the Company s entry into the high growth autoimmune market, diversifies its product revenue and enhances its strength in protein-based diagnostics. These factors contributed to consideration transferred in excess of the fair value of Crescendo s net tangible and intangible assets acquired, resulting in the Company recording goodwill in connection with the transaction.

The Company s allocation of consideration transferred for Crescendo is as follows:

<i>(In thousands)</i>	<b>Estimated Fair Value</b>
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Other assets acquired	\$ 15,826
Intangible assets	