

MYRIAD GENETICS INC
Form 10-Q
February 03, 2016
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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, 2015

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)

Delaware
(State or other jurisdiction of
incorporation or organization)

87-0494517
(I.R.S. Employer
Identification No.)

320 Wakara Way, Salt Lake City, UT
(Address of principal executive offices)

84108
(Zip Code)

Registrant's telephone number, including area code: (801) 584-3600

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

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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, 2016 the registrant had 71,252,152 shares of \$0.01 par value common stock outstanding.

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Condensed Consolidated Balance Sheets (Unaudited)

(In millions)

	December 31, 2015	June 30, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 134.7	\$ 64.1
Marketable investment securities	84.6	80.7
Prepaid expenses	9.7	12.5
Inventory	29.1	25.1
Trade accounts receivable, less allowance for doubtful accounts of \$6.2 December 31, 2015 and \$7.6 June 30, 2015	84.3	85.8
Deferred taxes		13.5
Prepaid taxes	28.0	
Other receivables	5.1	1.9
Total current assets	375.5	283.6
Property, plant and equipment, net	61.7	67.2
Long-term marketable investment securities	66.2	40.6
Intangibles, net	186.3	192.6
Goodwill	177.0	177.2
Other assets	5.0	5.0
Total assets	\$ 871.7	\$ 766.2
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	\$ 16.5	\$ 21.1
Accrued liabilities	47.9	46.1
Deferred revenue	1.5	1.5
Total current liabilities	65.9	68.7
Unrecognized tax benefits	27.9	26.4
Other long-term liabilities	6.8	8.8
Long-term deferred taxes	0.3	0.2
Total liabilities	100.9	104.1

Commitments and contingencies

Stockholders' equity:

Common stock, 71.6 and 68.9 shares outstanding at December 31, 2015 and June 30, 2015 respectively	0.7	0.7
Additional paid-in capital	847.8	745.4
Accumulated other comprehensive loss	(9.1)	(7.0)
Accumulated deficit	(68.6)	(77.0)
 Total stockholders' equity	 770.8	 662.1
 Total liabilities and stockholders' equity	 \$ 871.7	 \$ 766.2

See accompanying notes to condensed consolidated financial statements.

Table of Contents**MYRIAD GENETICS, INC.****AND SUBSIDIARIES**

Condensed Consolidated Statements of Operations (Unaudited)

(In millions, except per share amounts)

	Three months ended		Six months ended	
	December 31,		December 31,	
	2015	2014	2015	2014
Molecular diagnostic testing	\$ 182.6	\$ 179.2	\$ 354.5	\$ 343.6
Pharmaceutical and clinical services	10.7	5.2	22.3	9.6
Total revenue	193.3	184.4	376.8	353.2
Costs and expenses:				
Cost of molecular diagnostic testing	34.1	35.1	65.0	67.8
Cost of pharmaceutical and clinical services	6.5	2.8	12.1	4.9
Research and development expense	16.7	17.5	33.9	40.1
Selling, general, and administrative expense	90.8	92.7	177.3	178.1
Total costs and expenses	148.1	148.1	288.3	290.9
Operating income	45.2	36.3	88.5	62.3
Other income (expense):				
Interest income	0.1	0.1	0.2	0.1
Other	(0.3)	1.5	(0.1)	1.4
Total other income (expense):	(0.2)	1.6	0.1	1.5
Income before income tax	45.0	37.9	88.6	63.8
Income tax provision	14.7	13.9	31.6	23.8
Net income	\$ 30.3	\$ 24.0	\$ 57.0	\$ 40.0
Earnings per share:				
Basic	\$ 0.43	\$ 0.33	\$ 0.82	\$ 0.55
Diluted	\$ 0.41	\$ 0.32	\$ 0.78	\$ 0.53
Weighted average shares outstanding:				
Basic	70.5	72.5	69.6	72.6
Diluted	73.8	75.4	73.1	75.8

See accompanying notes to condensed consolidated financial statements.

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Condensed Consolidated Statements of Comprehensive Income (Unaudited)

(In millions)

	Three months ended		Six months ended	
	December 31,		December 31,	
	2015	2014	2015	2014
Net income	\$ 30.3	\$ 24.0	\$ 57.0	\$ 40.0
Unrealized gain (loss) on available-for-sale securities, net of tax	(0.2)	(0.1)	(0.1)	(0.3)
Change in foreign currency translation adjustment, net of tax	(1.8)	(1.7)	(2.0)	(2.4)
Comprehensive income	\$ 28.3	\$ 22.2	\$ 54.9	\$ 37.3

See accompanying notes to condensed consolidated financial statements.

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Condensed Consolidated Statements of Cash Flows (Unaudited)

(In millions)

	Six months ended December 31,	
	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 57.0	\$ 40.0
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	13.5	12.0
Gain on disposition of assets	(0.4)	
Share-based compensation expense	16.3	19.0
Bad debt expense	14.5	14.0
Deferred income taxes	29.8	1.9
Unrecognized tax benefits	1.5	1.1
Excess tax benefit from share-based compensation	(16.1)	(2.6)
Gain on remeasurement of foreign currency		(0.5)
Changes in assets and liabilities:		
Prepaid expenses	2.8	(0.8)
Trade accounts receivable	(11.1)	(13.9)
Other receivables	(5.3)	(1.6)
Inventory	(4.1)	3.7
Prepaid taxes	(28.0)	8.0
Accounts payable	(4.1)	(6.2)
Accrued liabilities	(0.5)	(15.2)
Deferred revenue		0.7
Net cash provided by operating activities	65.8	59.6
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(2.1)	(17.5)
Restricted cash		(21.6)
Purchases of marketable investment securities	(100.7)	(22.6)
Proceeds from maturities and sales of marketable investment securities	71.3	80.5
Net cash provided by (used in) investing activities	(31.5)	18.8
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net proceeds from common stock issued under share-based compensation plans	84.9	20.2
Excess tax benefit from share-based compensation	16.1	2.6
Repurchase and retirement of common stock	(62.9)	(103.9)

Net cash provided by (used in) financing activities	38.1	(81.1)
Effect of foreign exchange rates on cash and cash equivalents	(1.8)	(2.4)
Net increase (decrease) in cash and cash equivalents	70.6	(5.1)
Cash and cash equivalents at beginning of the period	64.1	64.8
Cash and cash equivalents at end of the period	\$ 134.7	\$ 59.7

See accompanying notes to condensed consolidated financial statements.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

(Dollars and shares in millions, except per share data)

(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, 2015, included in the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2015. Operating results for the three and six months ended December 31, 2015 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.

(2) ACQUISITIONS

German Clinic

On February 27, 2015, the Company completed the acquisition of privately-held Privatlinik Dr. Robert Schindlbeck GmbH & Co. KG (the Clinic) approximately 15 miles from the Company's European laboratories in Munich, Germany. The cash paid and preliminary total consideration transferred to acquire the Clinic was \$20.1.

Total consideration transferred was allocated to tangible assets acquired and liabilities assumed based on their preliminary fair values at the acquisition date as set forth below. The Company believes acquisition of the Clinic should facilitate the Company's penetration into the German molecular diagnostic market. The Clinic will allow the Company to directly negotiate reimbursement with government and private insurance providers for its tests in the German market and collaborate with hospitals and physician groups. These factors contributed to consideration transferred in excess of the fair value of the Clinic's net tangible and intangible assets acquired, resulting in the Company recording goodwill in connection with the transaction. Under German tax law the goodwill related to the purchase of the clinic is deductible and will be amortized for tax purposes over 15 years.

Management estimated the fair value of tangible and intangible assets and liabilities in accordance with the applicable accounting guidance for business combinations and utilized the services of third-party valuation consultants. The preliminary allocation of the consideration transferred is subject to potential adjustments primarily due to tax-related matters, including tax basis of acquired assets and liabilities in the foreign jurisdiction, and third party valuations of acquired assets and liabilities, including actuarial analysis of pension assets and liabilities and fair value of equipment. During the measurement period, the Company may record adjustments to the provisional amounts recognized in the

Company's initial accounting for the acquisition. The Company expects the allocation of the consideration transferred to be final within the measurement period (up to one year from the acquisition date).

	Estimated Fair Value
Current assets	\$ 3.1
Real property	20.7
Equipment	1.6
Goodwill	8.1
Current liabilities	(4.4)
Long-term liabilities	(9.0)
Total purchase price	\$ 20.1

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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, 2015 and June 30, 2015 were as follows:

	Amortized cost	Gross unrealized holding gains	Gross unrealized holding losses	Estimated fair value
At December 31, 2015:				
Cash and cash equivalents:				
Cash	\$ 114.0	\$	\$	\$ 114.0
Cash equivalents	20.7			20.7
Total cash and cash equivalents	134.7			134.7
Available-for-sale:				
Corporate bonds and notes	45.5		(0.1)	45.4
Municipal bonds	66.5	0.1	(0.1)	66.5
Federal agency issues	38.9			38.9
Total	\$ 285.6	\$ 0.1	\$ (0.2)	\$ 285.5
	Amortized cost			