

MYRIAD GENETICS INC  
Form 10-Q  
February 03, 2009  
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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, 2008

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 is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of "accelerated filer," "large accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. Check

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one:

Large accelerated filer

Accelerated filer

Non-accelerated filer   
(Do not check if a 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 30, 2009 the registrant had 46,804,719 shares of \$0.01 par value common stock outstanding.

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## MYRIAD GENETICS, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

<i>(In thousands, except per share amounts)</i>	Dec. 31, 2008	Jun. 30, 2008
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 178,985	\$ 237,734
Marketable investment securities	153,009	90,994
Prepaid expenses	2,749	3,143
Trade accounts receivable, less allowance for doubtful accounts of \$4,600 at Dec. 31, 2008 and \$4,100 at Jun. 30, 2008	41,432	40,663
Other receivables	746	4,769
<b>Total current assets</b>	<b>376,921</b>	<b>377,303</b>
Equipment and leasehold improvements:		
Equipment	65,785	63,095
Leasehold improvements	11,856	11,701
	77,641	74,796
Less accumulated depreciation	48,515	44,770
<b>Net equipment and leasehold improvements</b>	<b>29,126</b>	<b>30,026</b>
Long-term marketable investment securities	164,928	91,328
Other assets	2,592	685
	<b>\$ 573,567</b>	<b>\$ 499,342</b>
<b>Liabilities and Stockholders Equity</b>		
Current liabilities:		
Accounts payable	\$ 12,771	\$ 24,884
Accrued liabilities	40,820	46,770
Deferred revenue	230	2,033
<b>Total current liabilities</b>	<b>53,821</b>	<b>73,687</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 2008 and 60,000 at Jun. 30, 2008, issued and outstanding 46,743 at Dec. 31, 2008 and 44,744 at Jun. 30, 2008	467	447
Additional paid-in capital	687,731	630,000
Accumulated other comprehensive income (loss)	446	(237)
Accumulated deficit	(168,898)	(204,555)
<b>Total stockholders equity</b>	<b>519,746</b>	<b>425,655</b>
	<b>\$ 573,567</b>	<b>\$ 499,342</b>

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



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## MYRIAD GENETICS, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

<i>(In thousands, except per share amounts)</i>	Three Months Ended		Six Months Ended	
	Dec. 31, 2008	Dec. 31, 2007	Dec. 31, 2008	Dec. 31, 2007
<b>Revenue:</b>				
Molecular diagnostic revenue	\$ 83,952	\$ 53,097	\$ 153,918	\$ 99,153
Research and other revenue	424	3,645	4,108	5,855
<b>Total revenue</b>	<b>84,376</b>	<b>56,742</b>	<b>158,026</b>	<b>105,008</b>
<b>Costs and expenses:</b>				
Molecular diagnostic cost of revenue	11,060	7,690	20,850	15,026
Research and development expense	19,952	27,306	37,100	53,328
Selling, general, and administrative expense	35,598	30,482	68,998	56,970
<b>Total costs and expenses</b>	<b>66,610</b>	<b>65,478</b>	<b>126,948</b>	<b>125,324</b>
<b>Operating income (loss)</b>	<b>17,766</b>	<b>(8,736)</b>	<b>31,078</b>	<b>(20,316)</b>
<b>Other income (expense):</b>				
Interest income	3,437	3,667	6,871	7,523
Other		2	(2,005)	(272)
<b>Total other income</b>	<b>3,437</b>	<b>3,669</b>	<b>4,866</b>	<b>7,251</b>
<b>Income (loss) before taxes</b>	<b>21,203</b>	<b>(5,067)</b>	<b>35,944</b>	<b>(13,065)</b>
Income tax provision			287	
<b>Net income (loss)</b>	<b>\$ 21,203</b>	<b>\$ (5,067)</b>	<b>\$ 35,657</b>	<b>\$ (13,065)</b>
<b>Earnings (loss) per share</b>				
Basic	\$ 0.46	\$ (0.11)	\$ 0.78	\$ (0.30)
Diluted	\$ 0.43	\$ (0.11)	\$ 0.73	\$ (0.30)
<b>Weighted average shares outstanding</b>				
Basic	46,592	44,094	45,995	43,831
Diluted	48,858	44,094	48,592	43,831

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	
	Dec. 31, 2008	Dec. 31, 2007
<b>Cash flows from operating activities:</b>		
Net income (loss)	\$ 35,657	\$ (13,065)
<b>Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:</b>		
Depreciation and amortization	4,602	4,235
Loss on disposition of assets		272
Share-based compensation expense	11,217	6,225
Bad debt expense	7,994	5,623
Other-than-temporary impairment on marketable investment securities	1,986	
<b>Changes in operating assets and liabilities:</b>		
Prepaid expenses	394	(4,784)
Trade accounts receivable	(8,763)	(12,988)
Other receivables	4,023	(1,252)
Accounts payable	(12,113)	(1,853)
Accrued liabilities	(5,950)	5,089
Deferred revenue	(1,803)	(50)
<b>Net cash provided by (used in) operating activities</b>	<b>37,244</b>	<b>(12,548)</b>
<b>Cash flows used in investing activities:</b>		
Capital expenditures for equipment and leasehold improvements	(3,509)	(8,156)
Purchase of other assets	(2,100)	(100)
Purchases of marketable investment securities	(185,905)	(126,573)
Proceeds from maturities of marketable investment securities	48,987	103,489
<b>Net cash used in investing activities</b>	<b>(142,527)</b>	<b>(31,340)</b>
<b>Cash flows from financing activities:</b>		
Net proceeds from common stock issued undershare-based compensation plans	46,534	15,031
<b>Net cash provided by financing activities</b>	<b>46,534</b>	<b>15,031</b>
Net decrease in cash and cash equivalents	(58,749)	(28,857)
Cash and cash equivalents at beginning of period	237,734	143,432
<b>Cash and cash equivalents at end of period</b>	<b>\$ 178,985</b>	<b>\$ 114,575</b>

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. 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, 2008, included in the Company's Annual Report on Form 10-K for the year ended June 30, 2008. Operating results for the three and six months ended December 31, 2008 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

(2) Share-Based Compensation

The Company accounts for share-based compensation pursuant to the provisions of Statement of Financial Accounting Standards (SFAS) No. 123R, *Share-Based Payment* (SFAS 123R). SFAS 123R sets accounting requirements for share-based compensation to employees, including employee stock purchase plans, and requires companies to recognize in the statement of operations the grant-date fair value of stock options and other equity-based compensation.

On November 15, 2008, the Company's stockholders approved an amendment to the Company's restated certificate of incorporation, as amended, to increase the number of authorized shares of common stock from 60,000,000 to 150,000,000.

In 2003, the Company adopted and the shareholders approved the 2003 Employee, Director and Consultant Stock Option Plan, as amended most recently in November 2008 (the 2003 Plan), under which 8.4 million shares of common stock have been reserved for issuance upon the exercise of options that the Company grants from time to time. Additional shares represented by options previously granted under the Company's 2002 Amended and Restated Employee, Director and Consultant Stock Option Plan (the 2002 Plan) which are canceled or expire after the date of stockholder approval of the 2003 Plan without delivery of shares of stock by the Company and any shares which were reserved but not granted under the 2002 Plan as of the date of stockholder approval of the 2003 Plan are available for grant under the 2003 Plan. As of December 31, 2008 approximately 2.0 million shares represented by options remain outstanding under the 2002 Plan that will transfer to the 2003 Plan if they are cancelled or expire without delivery of the shares of stock by the Company.

The number of shares, terms, and exercise period are determined by the board of directors or a committee thereof on an option-by-option basis. Options generally vest ratably over four years and expire ten years from the date of grant. Options are granted to members of the board of directors under the terms of the 2003 Plan and vest on the first anniversary of the date of



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grant. The exercise price of options granted is equivalent to the fair market value of the stock on the date of grant. During the three and six months ended December 31, 2008, the Company granted approximately 96,000 and 1,006,000 options under the 2003 Plan. The Company also has an Employee Stock Purchase Plan under which a maximum of 1,000,000 shares of common stock may be purchased by eligible employees. During the three and six months ended December 31, 2008, the Company issued 0 and 34,186 shares of common stock under the Employee Stock Purchase Plan.

Employee stock-based compensation expense recognized under FAS 123R was allocated as follows (*in thousands*):

	Three months ended Dec. 31,		Six months ended Dec. 31,	
	2008	2007	2008	2007
Molecular diagnostic cost of revenue	\$ 168	\$ 212	\$ 307	\$ 233
Research and development expense	2,799	1,853	5,481	3,119
Selling, general, and administrative expense	3,203	1,735	5,429	2,873
Total share-based compensation expense	\$ 6,170	\$ 3,800	\$ 11,217	\$ 6,225

As of December 31, 2008, there was approximately \$52.0 million of total unrecognized share-based compensation cost related to share-based compensation granted under the Company's plans that will be recognized over a weighted-average period of 2.6 years.

The fair value of each option grant is estimated on the grant date using the Black-Scholes option-pricing model. Expected option lives and volatilities used in fair valuation calculations are based on historical data of the Company and the related expense is recognized on a straight-line basis over the vesting period.

**(3) Comprehensive Income (Loss)**

The components of the Company's comprehensive income (loss) are as follows:

<i>(In thousands)</i>	Three months ended Dec. 31,		Six months ended Dec. 31,	
	2008	2007	2008	2007
Net income (loss)	\$ 21,203	\$ (5,067)	\$ 35,657	\$ (13,065)
Change in unrealized gain (loss) on available-for-sale securities	7,059	453	683	914
Comprehensive income (loss)	\$ 28,262	\$ (4,614)	\$ 36,340	\$ (12,151)

**(4) Earnings (Loss) Per Share**

Basic earnings (loss) per share is computed based on the weighted-average number of shares of our common stock outstanding. Diluted earnings (loss) per share is computed based on the weighted-average number of shares of our common stock, including common stock equivalents outstanding. Potentially dilutive common shares consisting of stock options were not included in the diluted loss per share attributable to common stockholders for the three and six months ended December 31, 2008 and 2007 because the inclusion of such shares would have had an antidilutive effect.

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The following is a reconciliation of the numerators and denominators of the basic and diluted earnings (loss) per share computations (*in thousands*):

	Three months ended Dec. 31,		Six months ended Dec. 31,	
	2008	2007	2008	2007
<b>Numerator:</b>				
Net income (loss)	\$ 21,203	\$ (5,067)	\$ 35,657	\$ (13,065)
<b>Denominator:</b>				
Weighted-average shares outstanding used to compute basic earnings (loss) per share	46,592	44,094	45,995	43,831
Effect of dilutive stock options	2,266		2,597	
Weighted-average shares outstanding and dilutive securities used to compute dilutive earnings (loss) per share	48,858	44,094	48,592	43,831

For the three and six months ended December 31, 2008, there were outstanding potential common shares of 2,304,855 and 1,948,679 compared to 8,296,119 in the same periods in 2007, respectively, which were excluded from the computation of diluted earnings (loss) per share because the effect would have been anti-dilutive. These potential dilutive common shares may be dilutive to future diluted earnings per share.

**(5) Segment and Related Information**

The Company's business units have been aggregated into three reportable segments: (i) research, (ii) molecular diagnostics, and (iii) pharmaceutical development. The research segment is focused on the discovery of genes and protein pathways related to major common diseases. The molecular diagnostics segment provides testing to determine predisposition to common diseases and risks associated with drug toxicity and response. The pharmaceutical development segment is focused on the development of therapeutic products for the treatment and prevention of major diseases.

The Company evaluates segment performance based on results from operations before interest income and expense and other income and expense.

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<i>(In thousands)</i>	<b>Research</b>	<b>Molecular diagnostics</b>	<b>Pharmaceutical development</b>	<b>Total</b>
<b>Three months ended Dec. 31, 2008:</b>				
Revenue	\$ 424	\$ 83,952	\$ 690	\$ 84,376
Depreciation and amortization	599	1,057	690	2,346
Segment operating income (loss)	(9,255)	42,628	(15,607)	17,766
<b>Three months ended Dec. 31, 2007:</b>				
Revenue	2,395	53,097	1,250	56,742
Depreciation and amortization	608	713	847	2,168
Segment operating income (loss)	(7,235)	20,766	(22,267)	(8,736)
<b>Six months ended Dec. 31, 2008:</b>				
Revenue	4,108	153,918	1,395	158,026
Depreciation and amortization	1,178	2,029	1,395	4,602
Segment operating income (loss)	(15,110)	75,003	(28,815)	31,078
<b>Six months ended Dec. 31, 2007:</b>				
Revenue	4,605	99,153	1,250	105,008
Depreciation and amortization	1,202	1,387	1,646	4,235
Segment operating income (loss)	(13,927)	39,230	(45,619)	(20,316)
<i>(In thousands)</i>	<b>Three months ended Dec. 31, 2008</b>	<b>2007</b>	<b>Six months ended Dec. 31, 2008</b>	<b>2007</b>
Total operating income (loss) for reportable segments	\$ 17,766	\$ (8,736)	\$ 31,078	\$ (20,316)
Interest income	3,437	3,667	6,871	7,523
Other		2	(2,005)	(272)
Income tax provision			287	
<b>Net income (loss)</b>	<b>\$ 21,203</b>	<b>\$ (5,067)</b>	<b>\$ 35,657</b>	<b>\$ (13,065)</b>

The following table sets forth a comparison of balance sheet items by operating segment:

<i>(In thousands)</i>	<b>Dec. 31, 2008</b>	<b>Jun. 30, 2008</b>
<b>Net equipment and leasehold improvements:</b>		
Research	\$ 6,509	\$ 6,959
Molecular diagnostics	13,498	12,717
Pharmaceutical development	9,119	10,350
<b>Total</b>	<b>\$ 29,126</b>	<b>\$ 30,026</b>
<b>Total Assets:</b>		
Research	\$ 10,736	\$ 10,435
Molecular diagnostics	56,232	54,604
Pharmaceutical development	9,677	14,247
<b>Total</b>	<b>\$ 76,645</b>	<b>\$ 79,286</b>

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The following table reconciles assets by operating segment to total assets:

<i>(In thousands)</i>	<b>Dec. 31, 2008</b>	<b>Jun. 30, 2008</b>
Total assets by segment	\$ 76,645	\$ 79,286
Cash, cash equivalents and marketable investment securities (1)	496,922	420,056
<b>Total</b>	<b>\$ 573,567</b>	<b>\$ 499,342</b>

(1) The Company manages cash, cash equivalents and marketable investment securities at the consolidated level for all segments.

**(6) Fair Value Measurements**

On July 1, 2008, we adopted SFAS 157 *Fair Value Measurement* ( FAS 157 ), which established a framework for measuring fair value in GAAP and clarified the definition of fair value within that framework. FAS 157 does not require assets and liabilities that were previously recorded at cost to be recorded at fair value. For assets and liabilities that are already required to be disclosed at fair value, FAS 157 introduced, or reiterated, a number of key concepts which form the foundation of the fair value measurement approach to be used for financial reporting purposes. The fair value of our financial instruments reflects the amounts that we estimate to receive in connection with the sale of an asset or paid in connection with the transfer of a liability in an orderly transaction between market participants at the measurement date (exit price). FAS 157 also established a fair value hierarchy that 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.

The adoption of FAS 157 did not have an effect on our financial condition or results of operations, but FAS 157 requires new disclosures about how we value certain assets and liabilities. Much of the disclosure is focused on the inputs used to measure fair value, particularly in instances where the measurement uses significant unobservable (Level 3) inputs. The substantial majority of our financial instruments are valued using quoted prices in active markets or based on other observable inputs.

The following table sets forth the fair value of our financial assets that were measured on a recurring basis during the six months ended December 31, 2008:

<i>(In thousands)</i>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Cash and cash equivalents	\$ 139,994	\$ 38,991	\$	\$ 178,985
Securities available-for-sale		316,047	1,890	317,937
<b>Total</b>	<b>\$ 139,994</b>	<b>\$ 355,038</b>	<b>\$ 1,890</b>	<b>\$ 496,922</b>

Our Level 1 assets include cash and money market instruments. Level 2 assets consist of our marketable investment securities that include federal agency issues, commercial paper, corporate bonds, and euro bonds. As of December 31, 2008, we held \$1.9 million of investments which were measured using unobservable (Level 3) inputs. These investments represent less than 1% of



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our total fair value investments portfolio and were classified as Level 3 assets for the three and six months ended December 31, 2008. Our Level 3 assets consist of certain marketable investment securities, with an auction reset feature (auction rate securities) and the value is determined based on valuations which approximate fair value. As of December 31, 2008, we believe the unrealized losses in the auction-rate securities are temporary and we have the ability and intent to hold the assets to maturity. As a result, we have recorded the unrealized losses in other comprehensive loss in the accompanying condensed consolidated balance sheet. There were no changes in the composition or estimated fair value of our Level 3 financial assets, which are measured at fair value on a recurring basis, for the three and six months ended December 31, 2008.

(7) Separation of Research and Pharmaceutical Businesses

On October 20, 2008, the Company announced that Myriad's Board of Directors had authorized management to proceed with preparations to separate the Company's research and pharmaceutical development businesses from its molecular diagnostic business. The Company anticipates that the separation will be completed as a pro-rata tax free dividend distribution to shareholders of Myriad. The Company expects to file a Form 10 registration statement for the new research and pharmaceutical development company in the second calendar quarter of 2009. Completion of the proposed spin-off is subject to numerous conditions, including the filing and effectiveness of the Form 10 with the SEC and obtaining solvency and adequate capital surplus opinions.

(8) Subsequent Event

On January 20, 2009, the Company's wholly owned subsidiary, Myriad Pharmaceuticals, Inc. announced that it had purchased certain in-process research and development assets from Panacos Pharmaceuticals, Inc. The assets were determined to be in-process research and development assets and will be charged to expense on the acquisition date. The aggregate purchase price was \$7 million, which represented cash consideration.

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

We are a leading healthcare company focused on the development and marketing of novel molecular diagnostic and therapeutic products. We employ a number of proprietary technologies that permit us to understand the genetic basis of human disease and the role that genes and their related proteins play in the onset, progression and treatment of disease. We use this information to guide the development of new healthcare products that are designed to treat major disease and assess a person's risk of disease later in life.

Our molecular diagnostic business focuses on the analysis of genes and their alterations to assess an individual's risk for developing disease later in life (predictive medicine) and to assess a patient's risk of disease progression, disease recurrence, drug toxicity or drug response (personalized medicine). To date we have launched six commercial molecular diagnostic products, including both predictive medicine and personalized medicine products. We market these products through our own 250-person sales force in the United States and we have entered into marketing collaborations with other organizations in selected foreign countries. Molecular diagnostic revenue was \$84.0 million and \$153.9 million for the three and six months ended December 31, 2008, an increase of 58% and 55% over revenues of \$53.1 million and \$99.2 million for the same periods in the prior year.

We believe that advances in the emerging field of molecular diagnostics will improve our ability to determine which patients are subject to a greater risk of developing disease and who, therefore, would benefit from preventive therapies. Molecular diagnostic products may also guide a patient's healthcare to ensure the patient receives the most appropriate drug at the optimal dose.

To date we have launched six commercial molecular diagnostic products:

*BRCAAnalysis*<sup>®</sup>, our predictive medicine product for breast and ovarian cancer

*COLARIS*<sup>®</sup>, our predictive medicine product for colorectal and uterine cancer

*COLARIS AP*<sup>®</sup>, our predictive medicine product for colon cancer

*MELARIS*<sup>®</sup>, our predictive medicine product for melanoma

*Theraguide*<sup>®</sup>, *5FU*, our personalized medicine product for chemotherapy toxicity

*Prezeon*, our personalized medicine product for disease progression and drug response

We also focus our efforts on the development of therapeutic products to treat disease. To treat complex diseases effectively we believe that it is important to understand the function of genes and their proteins, how the disruption of important biological pathways can lead to disease, and the optimal point of therapeutic intervention in the pathway so that drugs may be developed to prevent, modify, or halt disease progression. We believe that the future of medicine lies in the creation of new classes of drugs that treat the underlying cause, not just the symptoms, of disease and that may be useful in disease prevention. By understanding the genetic basis of disease, we believe we will therefore be able to develop drugs that are more effective and have fewer side effects.

Myriad researchers have made important discoveries in the fields of cancer and infectious diseases such as AIDS. These discoveries point to novel disease pathways that we believe may pave the way for the development of new classes of drugs. As we learn more about the genetic basis of disease, we believe that we may be able to develop drugs that are more effective and have fewer side effects. Our major drug development programs include:

*Azixa* for the treatment of solid primary and metastatic brain tumors;

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*Vivecon* for the treatment of AIDS;

*MPC-2130* for the treatment of hematologic cancers;



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*MPC-0920* for the treatment of thrombosis; and

*MPC-3100* for the treatment of solid tumors.

On January 20, 2009, the Company's wholly owned subsidiary, Myriad Pharmaceuticals, Inc. announced that it had acquired all rights to Bevirimat from Panacos Pharmaceuticals for \$7 million. Bevirimat is a drug compound in development for the treatment of HIV.

We have devoted substantially all of our resources to undertaking our drug discovery and development programs, operating our molecular diagnostic business, and continuing our research and development efforts. We have three reportable operating segments: (1) research, (2) molecular diagnostics, and (3) pharmaceutical development. See Note 5 Segment and Related Information in the notes to our condensed consolidated financial statements (unaudited) for information regarding these operating segments. Our revenues have consisted primarily of sales of molecular diagnostic products and research payments. For the three and six months ended December 31, 2008, we had net income of \$21.2 million and \$35.7 million compared to a net loss of \$5.1 million and \$13.1 million for the same periods ended December 31, 2007. As of December 31, 2008, we had an accumulated deficit of \$168.9 million.

Our research and development expenses include costs incurred for our drug candidates currently in human clinical trials, including Azixa, Vivecon, MPC-0920, and MPC-2130. Currently, the only costs we track by each drug candidate are external costs such as services provided to us by clinical research organizations, manufacturing of drug supply, and other outsourced research by individual drug candidate. We do not assign to each drug candidate our internal costs such as salaries and benefits, facilities costs, lab supplies and the costs of preclinical research and studies. All research and development costs for our drug candidates are expensed as incurred.

The timing and amount of any future expenses, completion dates, and revenues for our drug candidates is not readily determinable due to the early stage of development of those candidates.

We do not know if we will be successful in developing any of our drug candidates. While expenses associated with the completion of our current clinical programs are expected to be substantial and increase, we believe that accurately projecting total program-specific expenses through commercialization is not possible at this time. The timing and amount of these expenses will depend upon the costs associated with potential future clinical trials of our drug candidates, and the related expansion of our research and development organization, regulatory requirements, advancement of our preclinical programs and product manufacturing costs, many of which cannot be determined with accuracy at this time. We are also unable to predict when, if ever, material net cash inflows will commence from our drug candidates. This is due to the numerous risks and uncertainties associated with the duration and cost of clinical trials, which vary significantly over the life of a project as a result of unanticipated events arising during clinical development, including:

the scope, rate of progress, and expense of our clinical trials and other research and development activities;

the length of time required to enroll suitable subjects; the number of subjects that ultimately participate in the trials;

the efficacy and safety results of our clinical trials and the number of additional required clinical trials;

the terms and timing of regulatory approvals;

our ability to market, commercialize, manufacture and supply, and achieve market acceptance for our product candidates that we are developing or may develop in the future; and

the filing, prosecuting, defending or enforcing any patent claims or other intellectual property rights.



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A change in the outcome of any of the foregoing variables in the development of a drug candidate could mean a significant change in the costs and timing associated with the development of that drug candidate. For example, if the FDA or another regulatory authority were to require us to conduct clinical trials beyond those which we currently anticipate to complete clinical development of a drug candidate, or if we experience significant delays in enrollment in any of our clinical trials, we would be required to expend significant additional financial resources and time on the completion of clinical development.

On October 20, 2008, we announced that our Board of Directors has authorized management to proceed with preparations to separate our research and drug development businesses from our molecular diagnostics business to form two well-capitalized, highly-focused, independent public companies. If completed, the transaction is intended to enable each of the companies to maximize its core strengths, pursue its long-term strategy, and excel in its respective fields, acknowledging the different needs of a high-growth, profitable molecular diagnostics business and a research and pharmaceutical development businesses. By separating the businesses, we believe each company will better pursue its long-term strategic initiatives and compete more effectively in its respective markets. We anticipate the proposed separation will be completed as a pro-rata dividend to shareholders. We expect to file a Form 10 registration statement for the new research and pharmaceutical development company in second calendar quarter of 2009.

### **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. Our critical accounting policies are as follows:

revenue recognition;

allowance for doubtful accounts;

share-based payment expense; and

fair value accounting.

*Revenue Recognition.* Molecular diagnostic revenue includes revenue from the sale of molecular diagnostic products and related marketing agreements, and is recorded at the invoiced amount net of any discounts or allowances. Molecular diagnostic revenue is recognized upon completion of the test, communication of results, and when collectability is reasonably assured.

Pharmaceutical revenue from non-refundable upfront license fees where the Company has continuing involvement is recognized ratably over the development or agreement period or upon termination of a development or license agreement when the Company has no ongoing obligation. We recognized no pharmaceutical revenue for the three and six months ended December 31, 2008.

Research revenue includes revenue from research agreements, milestone payments, and technology licensing agreements. In applying the principles of SAB 104 and EITF 00-21 to research and technology license agreements we consider the terms and conditions of each agreement separately to arrive at a proportional performance methodology of recognizing revenue. Such methodologies involve recognizing revenue on a straight-line basis over the term of the agreement, as underlying research costs are incurred, or on the basis of contractually defined output measures such as units delivered. The principal costs under these agreements are for personnel expenses to conduct research and development but also include costs for materials and other direct and indirect items necessary to complete the research under these agreements. Payments received on uncompleted long-term contracts may be greater than or less than incurred costs and estimated earnings and have been recorded as other receivables or deferred revenues in the accompanying consolidated balance sheets. Revenue from milestone payments for which we have no continuing performance obligations is recognized upon achievement of the related milestone. When we have continuing performance obligations, the milestone payments are deferred and recognized as revenue over the term of the arrangement as we complete our performance obligations. We recognize revenue from up-front nonrefundable license fees on a straight-line basis over the period of our continued involvement in the research and development project.



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*Allowance for Doubtful Accounts.* The preparation of our financial statements in accordance with U.S. GAAP requires us to make estimates and assumptions that affect the reported amount of assets at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Trade accounts receivable are comprised of amounts due from sales of our molecular diagnostic products, which are recorded net of any discounts or contractual allowances. We analyze trade accounts receivable and consider historic experience, customer creditworthiness, facts and circumstances specific to outstanding balances, and payment terms when evaluating the adequacy of the allowance for doubtful accounts.

We periodically evaluate and adjust the allowance for doubtful accounts when trends or significant events indicate that a change in estimate is appropriate. Such changes in estimate could materially affect our results of operations or financial position; however, to date these changes have not been material. It is possible that we may need to adjust our estimates in future periods.

After a review of our allowance for doubtful accounts as of December 31, 2008 and June 30, 2008, we have determined that a hypothetical ten percent increase in our allowance for doubtful accounts would result in additional bad debt expense and an increase to our allowance for doubtful accounts of \$460,000 and \$410,000, respectively.

*Share-Based Payment Expense.* Financial Accounting Standards Board Statement No. 123R, Share-Based Payment, or SFAS 123R, sets accounting requirements for share-based compensation to employees, including employee stock purchase plans, and requires us to recognize in our consolidated statements of operations the grant-date fair value of our stock options and other equity-based compensation. The determination of grant-date fair value is estimated using an option-pricing model, which includes variables such as the expected volatility of our share price, the exercise behavior of our employees, interest rates, and dividend yields. These variables are projected based on our historical data, experience, and other factors. Changes in any of these variables could result in material adjustments to the expense recognized for share-based payments.

*Fair Value Accounting.* On July 1, 2008, we adopted SFAS 157 *Fair Value Measurement* ( FAS 157 ), which established a framework for measuring fair value in GAAP and clarified the definition of fair value within that framework. FAS 157 does not require assets and liabilities that were previously recorded at cost to be recorded at fair value. For assets and liabilities that are already required to be disclosed at fair value, FAS 157 introduced, or reiterated, a number of key concepts which form the foundation of the fair value measurement approach to be used for financial reporting purposes. The fair value of our financial instruments reflects the amounts that we estimate to receive in connection with the sale of an asset or paid in connection with the transfer of a liability in an orderly transaction between market participants at the measurement date (exit price). FAS 157 also established a fair value hierarchy that 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 adoption of FAS 157 did not have an effect on our financial condition or results of operations, but FAS 157 requires new disclosures about how we value certain assets and liabilities. Much of the disclosure is focused on the inputs used to measure fair value, particularly in instances where the measurement uses significant unobservable (Level 3) inputs. The substantial majority of our financial instruments are valued using quoted prices in active markets or based on other observable inputs.

**Results of Operations for the Three Months Ended December 31, 2008 and 2007**

Molecular diagnostic revenue for the three months ended December 31, 2008 was \$84.0 million, compared to \$53.1 million for the same three months in 2007. This 58% increase in molecular diagnostic revenue is primarily attributable to increased testing volume. Increased sales, marketing, and education efforts resulted in wider acceptance of our products by the medical community and increased testing volumes for the three months ended December 31, 2008. During the past quarter we have continued our efforts to execute a public awareness marketing campaign in strategic southern states to increase our market penetration in both oncology and Ob/Gyn markets. Through these efforts we are attempting to broaden utilization of our products with current physician customers and increase the number of new physician customers prescribing our products. We believe these efforts will allow us to continue to grow molecular diagnostic revenue in future periods; however, there can be no assurance that molecular diagnostic revenue will continue to increase at historical rates.

Research and other revenue is comprised of research and license payments received pursuant to collaborative agreements. Research revenue for the three months ended December 31, 2008 was \$0.4 million, compared to \$3.6 million for the same three months in 2007. This 88% decrease in research revenue is primarily attributable to the completion of research collaborations. Research revenue from our research collaboration agreements is recognized using a proportional performance methodology. Consequently, as these programs progress and outputs increase or decrease, revenue may increase or decrease proportionately.

Molecular diagnostic cost of revenue for the three months ended December 31, 2008 was \$11.1 million, compared to \$7.7 million for the same three months in 2007. This increase of 44% in molecular diagnostic cost of revenue is primarily due to the 58% increase in revenue from our molecular diagnostic products, partially offset by technology improvements and efficiency gains in the operation of our molecular diagnostic laboratory. Our gross profit margin was 87% for the three months ended December 31, 2008 compared to 86% for the same three months in 2007. Our gross profit margins may fluctuate from quarter to quarter based on the introduction of any new molecular diagnostic products, changes in our costs associated with such products, and any new technologies and operating systems in our molecular diagnostic laboratory. There can be no assurance that molecular diagnostic gross profit margins will continue to increase or remain at current levels, and we expect that our gross profit margins will fluctuate from quarter to quarter.

Research and development expenses for the three months ended December 31, 2008 were \$20.0 million, compared to \$27.3 million for the same three months in 2007. This decrease of 27% was due primarily to:

decrease in pharmaceutical development costs of approximately \$10.3 million from the discontinuance of our former Alzheimer's disease drug candidate;

increase in development costs of our other diagnostic and pharmaceutical programs of approximately \$2.1 million; and

increase in SFAS 123R share-based payment expense of approximately \$0.9 million.

We expect our research and development expenses will fluctuate as we conduct additional clinical trials to support the potential commercialization of our product candidates currently in clinical development, including Azixa and Vivecon, advance our other product candidates into clinical trials, develop additional molecular diagnostic products, and expand our research and development activities.

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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, 2008 were \$35.6 million, compared to \$30.5 million for the same three months in 2007. The increase in selling, general and administrative expense of 17% was due primarily to:

increase in sales and marketing expense of approximately \$2.9 million to support the 58% growth in our molecular diagnostic revenues, which includes the continued expansion of our Ob/Gyn sales force, commissions, travel, and initiative programs;

increase in SFAS 123R share-based payment expense of approximately \$1.5 million;

increase in bad debt expense of approximately \$0.5 million that resulted from growth in our molecular diagnostic sales and an increase in our bad debt allowance; and

general increase in administrative costs of approximately \$0.2 million to support growth in our molecular diagnostic business and therapeutic development efforts.

We expect our selling, general and administrative expenses will continue to fluctuate depending on the number and scope of any new molecular diagnostic product launches, our efforts in support of our existing molecular diagnostic products, and our drug discovery and drug development efforts.

Interest income for the three months ended December 31, 2008 was \$3.4 million, compared to \$3.7 million for the same three months in 2007. The decrease was due primarily to fluctuations in interest rates.

**Results of Operations for the Six Months Ended December 31, 2008 and 2007**

Molecular diagnostic revenue for the six months ended December 31, 2008 was \$153.9 million compared to \$99.2 million for the same six months in 2006, an increase of 55%. This increase is primarily attributable to increased testing volumes. Increased sales, marketing, and education efforts, including our direct-to-consumer advertising campaign, have resulted in wider acceptance of our products by the medical community and increased revenue for the six months ended December 31, 2008. There can be no assurance that molecular diagnostic revenue will continue to increase at historical rates.

Research and other revenue for the six months ended December 31, 2008 was \$4.1 million compared to \$5.9 million for the same six months in 2007. This 30% decrease in research revenue is primarily attributable to the completion of research collaborations.

Molecular diagnostic cost of revenue for the six months ended December 31, 2008 was \$20.9 million compared to \$15.0 million for the same six months in 2007. This increase of 39% in molecular diagnostic cost of revenue is primarily attributable to the 55% growth in our molecular diagnostic revenues. Our gross profit margin was 86% for the six months ended December 31, 2008 compared to 85% for the same six months in 2007. Our gross profit margins may fluctuate from period to period based on the introduction of any new molecular diagnostic products, changes in our costs associated with such products, and any new technologies and operating systems in our molecular diagnostic laboratory. There can be no assurance that molecular diagnostic gross profit margins will continue to increase or remain at current levels, and we expect that our gross profit margins will fluctuate from quarter to quarter.

Research and development expenses for the six months ended December 31, 2008 were \$37.1 million compared to \$53.3 million for the same six months in 2007. This decrease of 30% was primarily due to:

decrease in pharmaceutical development costs of approximately \$23.1 million from the discontinuance of our former Alzheimer's disease drug candidate;





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increase in development costs of our other diagnostic and pharmaceutical programs of approximately \$4.5 million; and

increase in SFAS 123R share-based payment expense of approximately \$2.4 million.

Selling, general and administrative expenses for the six months ended December 31, 2008 were \$69.0 million, compared to \$57.0 million for the same six months in 2007. The increase in selling, general and administrative expense of 21% was due primarily:

increase in sales and marketing expense of approximately \$5.9 million, which includes the continued expansion of our Ob/Gyn sales force, commissions, travel, and initiative programs, to support the 55% growth in our molecular diagnostic revenues;

increase in SFAS 123R share-based payment expense of approximately \$2.6 million;

increase in bad debt expense of approximately \$2.4 million that resulted from the 55% growth in our molecular diagnostic sales and an increase in our bad debt allowance; and

general increase in administrative costs of approximately \$1.1 million to support growth in our molecular diagnostic business and therapeutic development efforts.

We expect our selling, general and administrative expenses will continue to fluctuate depending on the number and scope of any new molecular diagnostic product launches, our efforts in support of our existing molecular diagnostic products, and our drug discovery and development efforts.

Interest income for the six months ended December 31, 2008 was \$6.9 million, compared to \$7.5 million for the same three months in 2007. The decrease was due primarily to changing interest rates.

Other expense for the six months ended December 31, 2008 was comprised primarily of other-than-temporary impairment on marketable investment securities. Based on the bankruptcy filing of Lehman Brothers Holdings, Inc. ( "Lehman" ), we determined that our investment in certain Lehman bonds was not likely to be recoverable. Based on this determination we expensed the full value of all Lehman holdings resulting in an other than temporary impairment loss of approximately \$2.0 million.

## **Liquidity and Capital Resources**

Cash, cash equivalents, and marketable investment securities increased \$76.8 million, or 18%, from \$420.1 million at June 30, 2008 to \$496.9 million at December 31, 2008. This increase is primarily attributable to cash generated from our molecular diagnostic revenue and, to a lesser extent, research collaboration payments and proceeds from the exercise of stock options. This increase was partially offset by expenditures for our ongoing clinical trials, internal research and drug development programs, acquisition of capital assets, sales and marketing expense for our molecular diagnostic products, and other expenditures incurred in the ordinary course of business.

Net cash provided by operating activities was \$37.2 million during the six months ended December 31, 2008, compared to \$12.5 million used in operating activities during the same six months in 2007. Trade accounts receivable increased \$8.8 million between June 30, 2008 and December 31, 2008, primarily due to increases in molecular diagnostic sales. Accrued liabilities decreased by \$6.0 million between June 30, 2008 and December 31, 2008, primarily due to payments made following the discontinuance of our former Alzheimer's disease drug candidate. Deferred revenue decreased by \$1.8 million between June 30, 2008 and December 31, 2008, primarily due to the completion of research collaborations.

Our investing activities used cash of \$142.5 million during the six months ended December 31, 2008 and used cash of \$31.3 million during the same six months in 2007. Investing activities were comprised primarily of purchases and maturities of marketable investment securities and capital expenditures for research equipment and facilities, as well as the purchase of a technology license.



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Financing activities provided cash of \$46.5 million during the six months ended December 31, 2008 and provided cash of \$15.0 million in the same six months in 2007. During the six months ended December 31, 2008 we received \$46.5 million from the exercise of stock options and sales of our shares under our Employee Stock Purchase Plan.

We believe that with our existing capital resources and net cash provided by operating activities, we will have adequate funds to maintain our current and planned operations for at least the next two years, although no assurance can be given that changes will not occur that would consume available capital resources before such time and we may need or want to raise additional financing within this period of time. 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:

the progress and results of our current Phase 2 clinical trials of Azixa for the treatment of cancer and any additional trials that we may initiate based on the Phase 2 results;

the progress and results of our Phase 2a clinical trials for Vivecon and our Phase 1 trial for MPC-2130 and any future trials that we may initiate based on the results;

the results of our preclinical studies and testing for our preclinical programs and any decisions to initiate clinical trials if supported by the preclinical results;

the costs, timing and outcome of regulatory review of Azixa, Vivecon, MPC-2130, MPC-3100 and any preclinical drug candidates that may progress to clinical trials;

our ability to partner MPC-0920 or results of future clinical trials for MPC-0920;

the costs of establishing sales and marketing functions and of establishing or contracting for commercial manufacturing capacities if any of our drug candidates is approved;

the scope, progress, results and cost of preclinical development, clinical trials and regulatory review of any new drug candidates we may discover or acquire;

the costs and expenses incurred in supporting our existing molecular diagnostic products;

the progress, results and cost of developing additional molecular diagnostic products for our molecular diagnostic business;

the costs, timing and results of launching new molecular diagnostic products;

the costs, timing and outcome of any regulatory review of our existing or future molecular diagnostic products;

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

the costs, timing and outcome of any litigation against us associated with any of our current or future products;

our ability to enter into strategic collaborations, licensing or other arrangements favorable to us; and

the costs to satisfy our obligations under potential future collaborations.

The October 2008 announcement of our plans to proceed with preparations to separate our research and pharmaceutical development businesses from our molecular diagnostic business will impact our current liquidity and capital resources. At the time of separation, we intend to allocate our liquidity and capital resources to each business in a manner appropriate for its financial profile.

**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.

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### **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 similar substance used in 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 we may be unable to further identify, develop or achieve commercial success for new products and technologies; the risk that we may be unable to discover drugs that are safer and more efficacious than our competitors; the risk we may be unable to develop manufacturing capability for approved products; the risk that sales of or profit margins for our existing molecular diagnostic products may decline or will not continue to increase at historical rates; the risk that we may be unable to develop additional molecular diagnostic products that help assess which patients are subject to greater risk of developing diseases and who would therefore benefit from new preventive therapies; the possibility of delays in the research and development necessary to select drug development candidates and delays in clinical trials; the risk that clinical trials may not result in marketable products; the risk that we may be unable to successfully finance and secure regulatory approval of and market our drug candidates; the risk that clinical trials will not be completed on the timelines we have estimated; uncertainties about our ability to obtain new corporate collaborations and acquire new technologies on satisfactory terms, if at all; the development of competing products and services; the risk that we may be unable to protect our proprietary technologies; the risk of patent-infringement claims; risks of new, changing and competitive technologies and regulations in the United States and internationally; the risk that we may not be able to effectuate the spin off of our research and development businesses as contemplated; and other factors discussed under the heading Risk Factors contained in Item 1A of our Annual Report on Form 10-K for the year ended June 30, 2008, 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. Investors 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.

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

We maintain an investment portfolio in accordance with our written investment policy. The primary objectives of our investment policy are to preserve principal, maintain proper liquidity to meet operating needs and maximize yields. Our investment policy specifies credit quality standards for our investments and limits the amount of credit exposure to any single issue, issuer or type of investment.

Our investments consist of securities of various types and maturities of three years or less, with a maximum average maturity of 12 months. These securities are classified as available for sale. Available-for-sale securities are recorded on the balance sheet at fair market value with unrealized gains or losses reported as part of accumulated other comprehensive income/loss. Realized gains and losses on investment security transactions are reported on the specific-identification method. Dividend and interest income are recognized when earned. A decline in the market value of any available-for-sale security below cost that is deemed other than temporary results in a charge to earnings and establishes a new cost basis for the security.

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Although our investment policy guidelines are intended to ensure the preservation of principal, current market conditions have resulted in high levels of uncertainty. Our ability to trade or redeem the marketable investment securities in which we invest, including certain corporate bonds and auction rate securities, has become difficult. Valuation and pricing of these securities has also become variable and subject to uncertainty.

As of December 31, 2008 we have estimated unrealized gains of \$446,000 in our investment portfolio. For the six months ended December 31, 2008 we have experienced fluctuations in our portfolio value primarily from our investments in bonds of financial institutions currently experiencing credit difficulties and unrealized losses in the fair value changes in auction rate securities. We have determined that these losses are temporary in nature. We also recorded a \$2.0 million other than-temporary impairment on marketable investment securities for Lehman. However, the ultimate value that we realize from our marketable investment securities may change substantially. Due to our positive cash flows we do not anticipate that market conditions will adversely impact the operation of our business or current strategic plans.

The securities held in our investment portfolio are also subject to interest rate risk. Changes in interest rates affect the fair market value of the marketable investment securities. After a review of our marketable securities as of December 31, 2008, we have determined that in the event of a hypothetical ten percent increase in interest rates, the resulting decrease in fair market value of our marketable investment securities would be insignificant to the consolidated financial statements as a whole.

### **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 period covered by this Quarterly Report on Form 10-Q, have concluded that, based on such evaluation, our disclosure controls and procedures were adequate and effective to ensure that material information relating to us, including our consolidated subsidiaries, was made known to them by others within those entities, particularly during the period in which this Quarterly Report on Form 10-Q was being prepared.

In designing and evaluating our disclosure controls and procedures, our management recognizes 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.**

Neither the Company nor any of its subsidiaries is a party to any material legal proceedings.

**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, 2008.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.**

None.

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

None.

**Item 4. Submission of Matters to a Vote of Security Holders.**

On November 15, 2008, the Company held its Annual Meeting of Stockholders (the Annual Meeting). A quorum of 40,055,466 shares of Common Stock of the Company (of a total of 46,342,700 shares outstanding as of the record date, or 86.43%) was represented at the Annual Meeting in person or by proxy, which was held to vote on the following proposals:

1. To elect two members to the Board of Directors to serve three-year terms until the 2011 Annual Meeting and until their successors are duly elected and qualified or until their earlier death, resignation, retirement or removal. The nominees for Director were Walter Gilbert, Ph.D., and Dennis H. Langer, Ph.D.
2. To approve a proposed amendment to the Company's restated certificate of incorporation, as amended, to increase the number of authorized shares of common stock from 60,000,000 to 150,000,000.
3. To approve a proposed amendment to the Company's 2003 Employee, Director and Consultant Stock Option Plan to increase by 1,500,000 the number of shares of our common stock available for issuance under this plan.
4. To ratify the selection of Ernst and Young LLP as our independent registered public accounting firm for the fiscal year ending June 30, 2009.

Each of the proposals was adopted, with the vote totals as follows:

**Proposal 1:**

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Walter Gilbert, Ph.D.

<b>FOR</b>	<b>WITHHELD</b>
36,888,330	3,167,135
37,466,279	2,589,186

Dennis H. Langer M.D., J.D.

Immediately following the Annual Meeting Robert S. Attiyeh, Gerald P. Belle and John T. Henderson, M.D. continued to serve as Directors for terms expiring at the 2009 Annual Meeting and Peter D. Meldrum, Mark H. Skolnick, Ph.D. and Linda S. Wilson, Ph.D. continued to serve as Directors for terms expiring at the 2010 Annual Meeting, and until their respective successors are duly elected and qualified, or until their earlier death, resignation, retirement or removal.



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**Proposal 2:**

For	25,511,470
Against	14,503,187
Abstain	40,806
Broker Non-vote	0

**Proposal 3:**

For	18,783,008
Against	15,373,704
Abstain	188,188
Broker Non-vote	5,710,566

**Proposal 4:**

For	39,746,166
Against	98,297
Abstain	211,000
Broker Non-vote	0

**Item 5. Other Information.**

None.

**Item 6. Exhibits.**

(a) Exhibits

- 3.1 Restated Certificate of Incorporation, as amended.
- 10.1\$ Myriad Genetics, Inc. 2003 Employee, Director and Consultant Stock Option Plan, as amended (previously filed and incorporated herein by reference from the Current Report on Form 8-K filed on November 19, 2008).
- 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.

\$ 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 3, 2009

By: /s/ Peter D. Meldrum  
Peter D. Meldrum  
President and Chief Executive Officer

(Principal executive officer)

Date: February 3, 2009

By: /s/ James S. Evans  
James S. Evans  
Chief Financial Officer

(Principal financial and chief accounting officer)