

MYRIAD GENETICS INC  
Form 10-K  
September 07, 2006  
Table of Contents

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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**FORM 10-K**

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(Mark One)

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

For the fiscal year ended June 30, 2006

**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

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**MYRIAD GENETICS, INC.**

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

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**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

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**Securities registered pursuant to Section 12(b) of the Exchange Act:**

<b>Title of each class</b>	<b>Name of each exchange on which registered</b>
<b>Common Stock, \$.01 Par Value Per Share</b>	<b>The NASDAQ Global Select Market</b>
<b>Preferred Share Purchase Rights</b>	

**Securities registered pursuant to Section 12(g) of the Exchange Act: None**

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Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes  No

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

The aggregate market value of the registrant's common stock held by non-affiliates of the registrant (without admitting that any person whose shares are not included in such calculation is an affiliate), computed by reference to the price at which the common stock was last sold on December 31, 2005, the last business day of the registrant's most recently completed second fiscal quarter, was \$793,232,835.

As of September 1, 2006 the registrant had 39,718,025 shares of common stock outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE**

The following documents (or parts thereof) are incorporated by reference into the following parts of this Form 10-K: Certain information required in Part III of this Annual Report on Form 10-K is incorporated from the Registrant's Proxy Statement for the Annual Meeting of Stockholders to be held on November 16, 2006.

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## **Table of Contents**

### **PART I**

#### **Item 1. BUSINESS**

##### **Overview**

We are a leading biotechnology company focused on the development and marketing of novel therapeutic and molecular diagnostic 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 and progression of disease. We use this information to guide the development of new healthcare products that will treat major diseases and assess a person's risk of disease later in life.

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 be able to develop drugs that are safer and more efficacious. In addition, 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 these diseases and who therefore would benefit from preventive therapies.

Understanding the cause of disease at the molecular level can be very useful in determining how best to treat the disease. Historically, technologies used to discover pharmaceutical products that treat the symptoms of diseases have been less effective against complex diseases that arise through a combination of genetic and environmental factors, such as cancer and Alzheimer's disease. In order to treat complex diseases effectively, it is imperative to understand how the body uses its genetic information, how the disruption of important biological pathways can lead to disease, and how drugs can be developed to prevent, modify, or halt disease progression. As we learn more about the genetic basis of disease, we believe that we will be able to develop drugs that are more effective and have fewer side effects.

Our molecular diagnostic business encompasses efforts in both predictive medicine and personalized medicine. Predictive medicine analyzes genes and their mutations to assess an individual's risk for developing disease later in life. Personalized medicine analyzes genes and their mutations to assess a patient's risk of disease progression, disease recurrence, and drug response and toxicity. To date we have launched four commercial predictive medicine products, including BRACAnalysis® risk assessment for breast and ovarian cancer, COLARIS® risk assessment for colon and uterine cancer, COLARIS AP® risk assessment for the polyp-forming syndrome of colon cancer, and MELARIS® risk assessment for melanoma (a deadly form of skin cancer). We market these products through our own 115-person sales force in the United States and we have entered into marketing collaborations with other organizations in selected foreign countries. Predictive medicine revenues were \$100.6 million for the year ended June 30, 2006, an increase of 41% over the prior fiscal year.

Myriad researchers have made important discoveries in the fields of cancer, Alzheimer's disease, 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. We intend to develop and, subject to regulatory approval, market our therapeutic products in the area of cancer, Alzheimer's disease and viral disease.

We currently have four proprietary drug candidates in seven human clinical trials and a number of promising drug candidates in late-stage preclinical development. Our major drug development programs include Flurizan for the treatment of Alzheimer's disease, Azixa (formerly MPC-6827) for the treatment of solid cancer tumors and brain metastases, MPC-2130 for the treatment of hematologic cancers, MPC-0920 for the treatment of thrombosis and MPI-49839 for the treatment of AIDS.

We have also entered into strategic partnerships and collaborative relationships to discover genes and proteins associated with human disease, elucidate protein networks and disease pathways, screen small molecule libraries against drug target assays, develop novel drug candidates, and sequence the genome of entire organisms. We are currently undertaking collaborative research and development work with a number of organizations, including Abbott Laboratories, Istituto Agrario di San Michele all'Adigea and various entities within the National Institutes of Health. These collaborations allow us to further develop and exploit our technologies and to generate revenue.

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## **Table of Contents**

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. Our revenues for the fiscal year ended June 30, 2006 consisted primarily of sales of predictive medicine products (88%) and research payments (12%). We have yet to attain profitability and, for year ended June 30, 2006, we had a net loss of \$38.2 million. As of June 30, 2006 we had an accumulated deficit of \$217.4 million.

We expect to incur losses for at least the next several years, primarily due to the expansion of our drug discovery and development efforts, the initiation and continuation of human clinical trials, the launch of new molecular diagnostic products, the performance of our internal research and development programs, and expansion of our facilities. We incurred research and development expenses of \$83.8 million, \$59.2 million, and \$50.7 million for the years ended June 30, 2006, 2005, and 2004, respectively. Additionally, we expect to incur substantial sales, marketing and other expenses in connection with building our pharmaceutical and predictive medicine businesses. We expect that losses will fluctuate from quarter to quarter and that such fluctuations may be substantial.

### **Our Business Strategy**

Our business strategy is to understand the relationship between genes, proteins and human diseases in order to develop the next generation of therapeutic and molecular diagnostic products. Through our proprietary technologies, we believe we are uniquely positioned to identify important disease genes, the proteins they produce, and the biological pathways in which they are involved to better understand the underlying molecular basis for the cause of human disease. We believe that identifying these genes, proteins, and pathways will enable us to develop novel therapeutic and molecular diagnostic products. Our business strategy includes the following key elements:

*Discover important disease genes, understand their function and determine their role in human disease.* We will continue to use our proprietary technologies, combined with our bioinformatics and robotic technologies, to efficiently discover important genes and proteins and to understand their role in human disease. These technologies enable us to go beyond a single gene, protein or drug target and explore a large number of potential drug targets involved in a disease pathway. We also use a large array of molecular risk phenotypes to simultaneously screen hundreds of genes against dozens of important diseases. We believe these technologies provide us with a significant competitive advantage and numerous product opportunities.

*Grow and expand our molecular diagnostic business.* We will continue to increase the domestic and foreign market penetration of our existing predictive medicine products and create additional products to capitalize on the emerging area of predictive medicine. Additionally, we will pursue new products and business opportunities in the area of personalized medicine, which analyzes genes and their mutations to assess a patient's risk of disease progression, disease recurrence, and drug response and toxicity. Because complex diseases are caused by a variety of different factors and patients have genetic differences, we believe that a single drug won't be effective in all patients. By understanding these different genetic factors, personalized medicine may assist physicians in both selecting the best therapy for a particular patient and prescribing optimal dosage for that patient.

*Develop and commercialize therapeutic products.* We will continue to employ our assay development and high-throughput screening technologies to rapidly identify lead compounds for potential drug development. We intend to take selected drug candidates, particularly in the area of cancer, Alzheimer's disease and viral diseases, through the clinical development process independently. We are focusing on these indications due to the large unmet medical need for effective and less toxic drugs, and the often shorter and less expensive clinical trials resulting from potential fast track review status that the Food and Drug Administration (FDA) has typically afforded drugs in these areas. If a drug candidate in one of these core areas receives approval from the FDA, we plan to build a commercial operation focused on promoting the drug to specialist physicians in that area. To address general practitioners and primary care physicians, we intend to form a strategic marketing relationship with a large pharmaceutical company. Finally, we hope to be able to leverage the expertise of our existing oncology sales force in the marketing of novel cancer therapies.

*Acquire promising drug candidates and biomarkers/genes from other organizations.* We will continue to take advantage of in-licensing opportunities to augment our in-house product development programs. We recognize that we can't meet all of our research discovery needs internally and can benefit from the research performed at other organizations. We hope to leverage our financial strength and product development expertise to acquire new product opportunities in our therapeutic and molecular diagnostic areas of focus.



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**Table of Contents**

*Capitalize on our strategic alliances with major pharmaceutical companies.* We will continue to enter into strategic alliances with large pharmaceutical companies to develop and commercialize novel drug targets and drug candidates in areas outside our primary focus. Ideally, we plan to partner these compounds with major pharmaceutical companies prior to pursuing human clinical trials. This will shift much of the financial risk associated with later stage drug development to our partners, while permitting us to benefit from our partners' drug development expertise and marketing strength.

**Predictive medicine products**

Predictive medicine analyzes genes and their mutations to assess an individual's risk for developing disease later in life. Armed with this risk assessment information, individuals can increase surveillance and take action to prevent or delay the onset of disease.

To date, we have launched four commercial predictive medicine products. We market these products through our own 115-person sales force in the United States and we have entered into marketing collaborations with other organizations in selected foreign countries. Predictive medicine revenues were \$100.6 million for the year ended June 30, 2006, an increase of 41% over the prior fiscal year. Our current commercial predictive medicine products are described below:

*BRACAnalysis: predictive medicine product for breast and ovarian cancer.* BRACAnalysis is a comprehensive analysis of the BRCA1 and BRCA2 genes for assessing a woman's risk for breast and ovarian cancer. A woman who tests positive with the BRACAnalysis test has an 82% risk of developing breast cancer during her lifetime and up to a 54% risk of developing ovarian cancer. BRACAnalysis provides important information that we believe will help the patient and her physician make better informed lifestyle, surveillance, preventive medication and treatment decisions. As published in the *Journal of the National Cancer Institute*, researchers have shown that pre-symptomatic individuals who have a high risk of developing breast cancer can reduce their risk by approximately 50% with appropriate preventive therapies. Additionally, as published in the *New England Journal of Medicine*, researchers have shown that pre-symptomatic individuals who carry gene mutations can lower their risk of developing ovarian cancer by approximately 60% with appropriate preventive therapies.

It is estimated that in 2006 there will be approximately 235,000 women in the United States diagnosed with breast or ovarian cancer. This year in the United States an estimated 57,000 women will die from these cancers. The test is currently priced at \$3,120 and is covered by all major health maintenance organizations and health insurance providers in the United States. We own or have exclusive rights to 20 United States patents covering BRACAnalysis.

*COLARIS: predictive medicine product for colon cancer and uterine cancer.* COLARIS is a comprehensive analysis of the MLH1 and MSH2 genes for determining a person's risk of developing colon cancer or uterine cancer. Individuals who carry a deleterious mutation in one of the two colon cancer genes in the COLARIS test have a greater than 80% lifetime risk of developing colon cancer and women have a 60% lifetime chance of developing uterine cancer. Highly effective preventive measures include colonoscopy and the removal of precancerous polyps. Through proper application of screening and polyp removal, colon cancer is a preventable disease.

Colorectal cancer is the second leading cause of cancer deaths in the United States. According to the American Cancer Society, approximately 190,000 new cases of colorectal or uterine cancer will be diagnosed this year. Familial forms of colorectal cancer are estimated to account for 10% to 30% of all cases according to the American Society of Clinical Oncologists. The test is currently priced at \$2,050 and is covered by all major health maintenance organizations and health insurance providers in the United States. We own or have non-exclusive rights to seven United States patents covering COLARIS.

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## **Table of Contents**

*COLARIS AP: predictive medicine product for colon cancer.* COLARIS AP detects mutations in the APC and MYH genes, which cause a colon polyp-forming syndrome known as Familial Adenomatous Polyposis (FAP) and a more common variation of the syndrome known as attenuated FAP. Individuals who carry a deleterious mutation in the APC or MYH gene may have a greater than 90% lifetime risk of developing colon cancer. Effective preventive measures include colonoscopy and the removal of pre-cancerous polyps and prophylactic surgery. The test is currently priced at \$1,795 and is covered by all major health maintenance organizations and health insurance providers in the United States. We own or have exclusive or non-exclusive rights to eight United States patents covering COLARIS AP.

*MELARIS: predictive medicine product for melanoma.* MELARIS analyzes mutations in the p16 gene to determine genetic susceptibility to malignant melanoma, a deadly form of skin cancer. Individuals who test positive for MELARIS have a 75-fold increased risk of developing melanoma during their lifetimes as compared to the general population. MELARIS, which assesses a person's risk of developing melanoma, provides important information that we believe will be useful in the surveillance and prevention of melanoma. Melanoma can be prevented through appropriate screening and a specific threshold of action for mutation carriers, in which pre-cancerous lesions are removed before cancer can develop.

According to the American Cancer Society, approximately 62,000 new cases of melanoma will be diagnosed in the United States in 2006. Melanoma is lethal within five years in 86% of cases where it has spread to another site in the body. However, when melanoma is diagnosed at an early stage, fewer than 10% of patients die within five years. MELARIS is currently priced at \$745 and is covered by certain health maintenance organizations and health insurance providers in the United States. We own or have exclusive rights to 11 United States patents covering MELARIS.

## **Therapeutic products in development**

We have developed and integrated a powerful set of technologies that enable us to discover genes of commercial importance, elucidate the function of their proteins, and understand their role in disease pathways. Our high-throughput target discovery systems use an integrated instrumentation platform and bioinformatics software custom designed by our scientists and software engineers. To identify potential drug candidates, a target is tested through high-throughput screening against our chemically diverse library, comprised of over 300,000 different small molecule compounds. Our staff of medicinal and analytical chemists develops analogs based on the original lead structure using molecular modeling and other techniques to increase the efficacy, improve the safety, increase the solubility, and increase the oral bioavailability of the lead compounds. Once a candidate drug has been selected, we assess its safety and efficacy in vivo and perform the necessary toxicology and pharmacokinetic analysis in preparation for submission of an Investigational New Drug (IND) application to the FDA and human clinical studies.

We currently have four drug candidates in seven clinical trials and a number of drug candidates in late-stage preclinical development. Our most advanced drug development programs are described below:

*Flurizan (R-flurbiprofen): drug candidate for Alzheimer's disease.* Flurizan, our lead therapeutic candidate for the treatment of Alzheimer's disease, is the first in a new class of drug candidates known as Selective Amyloid Beta Lowering Agents, or SALAs. Flurizan modulates the gamma-secretase enzyme and has been shown in pre-clinical studies to reduce the levels of the toxic peptide, A $\beta$ -42, by up to 75%. We believe that A $\beta$ -42 is the primary initiator of neurotoxicity and amyloid plaque deposition in the brains of Alzheimer's patients.

In April 2005, we completed a 12 month Phase 2 human clinical trial of Flurizan in 207 patients with mild to moderate Alzheimer's disease. The study found that patients with mild Alzheimer's disease who received the 800 mg twice-daily dose of Flurizan achieved between 34% and 48% slowing in decline on the three primary endpoints (activities of daily living, overall function, and cognitive ability). A 20% or greater slowing in decline is generally regarded as clinically relevant. Flurizan appeared to be well tolerated by Alzheimer's patients in the Phase 2 study and adverse events were generally mild and non-specific and did not differ significantly between placebo and treated groups.

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**Table of Contents**

Since April 2005, we have continued a double-blind Phase 2 follow-on study, gathering longer-term data from the patients who elected to continue for an additional 12 months beyond the original study. The data suggest that during the follow-on period from months 12 to 24, the benefit of Flurizan increased in terms of both effect size and significance, which we believe is consistent with disease modification.

We have also initiated two Phase 3 clinical trials in patients with mild Alzheimer's disease. The first Phase 3 trial is a two-arm study (800 mg twice daily and placebo) which has enrolled 800 patients per arm in 130 centers in the United States and is designed to assess the ability of Flurizan to reduce the rate of cognitive decline and decline in activities of daily living over an 18-month period with a 12-month interim look. The second Phase 3 trial is also a two-arm study (800 mg twice daily and placebo) and will enroll 400 patients per arm in 65 centers in Europe, Canada and the United States. This study is also designed to assess the ability of Flurizan to reduce the rate of cognitive decline and decline in overall function, such as judgment, problem-solving, behavior, and orientation over an 18-month period.

Alzheimer's disease is a degenerative neurological condition affecting up to 50% of all people aged 85 or older, with an estimated 4.5 million cases in the United States alone. We own or have exclusive rights to four United States patents covering Flurizan for Alzheimer's disease.

*MPC-7869 (R-flurbiprofen): drug candidate for prostate cancer.* MPC-7869 is the subject of a Phase 2b human clinical trial for the treatment of patients with pre-metastatic prostate cancer. This clinical trial is a three arm (800 mg twice daily, 800 mg once daily, and placebo), 82 patient per arm study being conducted at 56 centers in the United States and Canada and is designed to assess the ability of MPC-7869 to delay the onset of metastatic cancer in patients with prostate cancer. Approximately 234,000 men in the United States will be diagnosed with prostate cancer this year. It is the second leading cause of death from cancer in men. We own or have exclusive rights to two United States patents covering MPC-7869 for prostate cancer.

*Azixa: drug candidate for solid cancer tumors and brain metastases.* Azixa, is a novel, small-molecule tubulin inhibitor that is being studied in two Phase 1 human clinical trials. These trials use an escalating dose regimen designed to evaluate the safety and pharmacokinetic profile of Azixa in patients with advanced solid tumors and metastatic brain tumors. In preclinical studies, Azixa showed better activity against a range of human tumors in mouse xenografts than the current standard of care treatments for those cancers.

In addition, Azixa demonstrated the ability to effectively cross the blood-brain barrier and was not subject to multiple drug resistance. This drug candidate has shown activity in preclinical studies against tumors of the prostate, breast, pancreas, colon and skin (melanoma). According to the American Cancer Society, these cancers are expected to account for approximately 650,000 new cases in 2006 in the United States alone. In addition, according to the National Cancer Institute, it is estimated that there were as many as 170,000 new cases of brain metastases in 2005. We own or have exclusive rights to five United States patent applications covering Azixa.

*MPC-2130: drug candidate for blood cancers.* Our drug candidate MPC-2130, a novel apoptosis inducing small molecule, is also in the Phase 1 clinical trial stage. The study is designed to evaluate the safety and pharmacokinetic profile of MPC-2130 in patients with hematologic cancers as well as refractory cancers that have progressed despite previous chemotherapy. In preclinical studies, MPC-2130 demonstrated cancer cell killing activity in ovarian cancer and prostate cancer as well as two lymphoma cell lines, Burkitt's lymphoma and T-cell lymphoma. In addition, MPC-2130 was not subject to multiple drug resistance and was able to cross the blood-brain barrier.

According to the American Cancer Society, approximately 100,000 Americans will be diagnosed with hematologic cancers in 2006. We own or have exclusive rights to four United States patent applications covering MPC-2130.

*MPC-0920: drug candidate for thrombosis.* In April 2006, we initiated a Phase 1 human clinical trial for our drug candidate MPC-0920, an orally available direct thrombin inhibitor. The study uses an escalating



**Table of Contents**

dose regimen designed to evaluate the safety and pharmacokinetic profile of MPC-0920 in healthy volunteers. MPC-0920 has demonstrated characteristics that may offer improvements over traditional anticoagulants, which have limitations such as non-selectivity, inability to effect thrombin-bound fibrin and drug and food interactions. We believe that deep-vein thrombosis and atrial fibrillation represent two large potential markets.

Deep-vein thrombosis occurs when a blood clot (thrombus) forms in a deep vein, usually in the lower leg. This type of clot can break apart, travel up the leg and through the heart, lodging in the lungs and causing blockage of an artery. Atrial fibrillation (flutters or irregular rhythms in the upper chambers of the heart) can result in blood clots that can break apart and travel to the lungs or to the brain causing a stroke. It is estimated that there were approximately 1,000,000 patients who experienced deep-vein thrombosis or atrial fibrillation in 2005. We own or have exclusive rights to two United States patents covering MPC-0920.

*MPI-49839: drug candidate for AIDS.* MPI-49839, an orally available viral maturation inhibitor, is in late-stage preclinical development for the treatment of AIDS. As published in the scientific journal *Cell* in October 2001, our scientists and their collaborators discovered the viral budding and maturation mechanism in HIV and other viruses. This discovery led to the development of MPI-49839, which is one of a new class of drug candidates for the treatment of AIDS. MPI-49839 has demonstrated strong anti-HIV activity and has been shown to be active against many of the drug resistant strains of HIV. MPI-49839 is in late-stage preclinical development in preparation for human clinical testing in the future. It is estimated that approximately 415,000 individuals in the United States are infected with HIV. We own or have exclusive rights to one United States patent application covering MPI-49839.

**Therapeutic product pipeline**

<b>Drug Candidate</b>	<b>Therapeutic Area</b>	<b>Status</b>
Flurizan	Alzheimer s disease	Phase 3 (U.S.)
Flurizan	Alzheimer s disease	Phase 3 (Europe)
MPC-7869	Prostate cancer	Phase 2b
Azixa	Brain metastases	Phase 1
Azixa	Solid tumors	Phase 1
MPC-2130	Blood cancers and metastatic tumors	Phase 1
MPC-0920	Thrombosis	Phase 1
MPI-49839	AIDS	Preclinical

**Patents and Proprietary Rights**

We intend to seek patent protection in the United States and major foreign jurisdictions for genes, proteins, antibodies, drug targets, drug compounds, technology, methods, processes and other inventions which we believe are patentable and where we believe our interests would be best served by seeking patent protection. We also intend to rely upon trade secret rights to protect certain other technologies which may be used in discovering and characterizing new genes and proteins and which may be used in the development of novel therapeutic and molecular diagnostic products. However, any such patents may not issue, and the breadth or the degree of protection of any claims of such patents may not afford us with significant protection. To further protect our trade secrets and other proprietary information, we require that our employees and consultants enter into confidentiality and invention assignment agreements. However, those confidentiality and invention assignment agreements may not provide us with adequate protection.

We own or have licensed rights to over 300 issued patents and numerous patent applications in the United States and foreign countries. However, any patent applications which we have filed or will file or to which we have licensed or will license rights may not issue, and patents that do issue may not contain commercially valuable claims. In addition, any patents issued to us or our licensors may not afford meaningful protection for our technology or products or may be subsequently circumvented, invalidated or narrowed.

Our processes and potential products may also conflict with patents which have been or may be granted to competitors, academic institutions or others. As the biotechnology industry expands and more patents are issued, the



## **Table of Contents**

risk increases that our processes and potential products may give rise to interferences filed by others in the U.S. Patent and Trademark Office, or to claims of patent infringement by other companies, institutions or individuals. These entities or persons could bring legal actions against us claiming damages and seeking to enjoin clinical testing, manufacturing and marketing of the related product or process. If any of these actions are successful, in addition to any potential liability for damages, we could be required to cease the infringing activity or obtain a license in order to continue to manufacture or market the relevant product or process. We may not prevail in any such action and any license required under any such patent may not be made available on acceptable terms, if at all. Our failure to obtain a license to any technology that we may require to commercialize our technologies or potential products could have a material adverse effect on our business.

We also rely upon unpatented proprietary technology, and in the future may determine in some cases that our interests would be better served by reliance on trade secrets or confidentiality agreements rather than patents or licenses. These include some of our genomic, proteomic, RNA profiling, robotic and bioinformatic technologies. We may not be able to protect our rights to such unpatented proprietary technology and others may independently develop substantially equivalent technologies. If we are unable to obtain strong proprietary rights to our processes or products after obtaining regulatory clearance, competitors may be able to market competing processes and products.

Others may obtain patents having claims which cover aspects of our products or processes which are necessary for or useful to the development, use or manufacture of our services or products. Should any other group obtain patent protection with respect to our discoveries, our commercialization of potential therapeutic products and predictive medicine products could be limited or prohibited.

In addition, we are a party to various license agreements which give us the rights to use certain technology in our research, development, testing processes, and commercialization of products. We may not be able to continue to license this technology on commercially reasonable terms, if at all. Our failure to maintain rights to this technology could have a material adverse effect on our business.

## **License Agreements**

We have entered into licensing agreements with the University of Utah Research Foundation (the University) for the exclusive rights to utilize the University's intellectual property rights, including issued patents that relate to the BRCA1, BRCA2, and p16 genes on a world-wide basis. Under these license agreements we pay the University a royalty based on net sales of our BRACAnalysis and MELARIS predictive medicine products. We have also entered into a license agreement with Encore Pharmaceuticals, Inc. (Encore) for the exclusive rights to utilize Encore's intellectual property rights, including issued patents that relate to Flurizan and MPC-7869 (R-Flurbiprofen) on a world-wide basis. Under this license agreement we would pay Encore a royalty based on future net sales of Flurizan and MPC-7869 or any other product which utilizes Encore's intellectual property rights licensed to us.

## **Competition**

Competition is intense in our existing and potential markets. Our competitors in the United States and abroad are numerous and include, among others, major pharmaceutical companies, diagnostic reference laboratories, and biotechnology firms, universities and other research institutions. Many of our potential competitors have considerably greater financial, technical, marketing and other resources than we do. We expect competition to intensify in the fields in which we are involved as technical advances occur in these fields and become more widely known.

We expect to encounter significant competition with respect to any drugs that may be developed using our technologies. Companies that complete clinical trials, obtain required regulatory approvals and commence commercial sales of therapeutic products prior to us may achieve a significant competitive advantage. We may not be able to develop such products successfully and we may not obtain patents covering such products that provide protection against competitors. Moreover, competitors may succeed in developing therapeutic products that circumvent our products, and our competitors may succeed in developing technologies or products that are more effective than those developed by us or that would render our technologies or products less competitive or obsolete.

The technologies for discovering genes that cause major diseases and approaches for commercializing those discoveries are rapidly evolving. Rapid technological developments could result in our potential services, products,

## **Table of Contents**

or processes becoming obsolete before we recover a significant portion of our related research and development costs and associated capital expenditures. If we do not discover additional disease-causing genes, characterize their functions, develop molecular diagnostic products and related information services based on such discoveries, obtain regulatory and other approvals, and launch such services or products before our competitors, we could be adversely affected. Moreover, any molecular diagnostic products that we may develop could be made obsolete by less expensive or more effective tests or methods that may be developed in the future.

### **Governmental Regulation**

Regulation by governmental authorities in the United States and foreign countries is a significant factor in the development, manufacture and marketing of our proposed products and services and in our ongoing research and development activities. The therapeutic products and some of the molecular diagnostic products developed by us will require regulatory approval by governmental agencies prior to commercialization. Various federal statutes and regulations also govern or influence the testing, manufacturing, safety, labeling, storage, record keeping, and marketing of therapeutic products. The process of obtaining these approvals and the subsequent compliance with applicable statutes and regulations require the expenditure of substantial time and financial resources. Any failure by us or our collaborators, licensors or licensees to obtain, or any delay in obtaining regulatory approval could have a material adverse effect on our business.

*Therapeutics.* We intend to develop therapeutic products which will be subject to regulation by the FDA and foreign regulatory authorities and require approval before they may be clinically tested and commercially marketed for human therapeutic use in the United States and other countries. The precise regulatory requirements with which we will have to comply are undergoing periodic revisions and refinement.

The steps required before a therapeutic product may be marketed in the United States are numerous and include, but are not limited to:

completion of preclinical laboratory tests, animal studies, chemical process development, and formulation studies;

the submission to the FDA of an IND, which must become effective before human clinical trials may commence;

performance of adequate and well-controlled human clinical trials to establish the safety and efficacy of the drug for its intended use;

the submission of a New Drug Application (NDA) to the FDA; and

FDA approval of the NDA, including approval of all product labeling and initial advertising.

The testing and approval process requires substantial time, effort, and financial resources and we cannot be certain that any approvals for any of our products will be granted on a timely basis, if at all.

Human clinical trials are typically conducted in three sequential Phases which may overlap:

PHASE 1: Initial safety study in healthy human subjects or patients where the candidate therapy is tested for safety, dosage tolerance, absorption, distribution, metabolism, and excretion.

PHASE 2: Studies in a limited patient population designed to identify possible adverse effects and safety risks, to determine the efficacy of the product for specific targeted diseases and to determine dosage tolerance and optimal dosage.

PHASE 3: Studies in an expanded patient population to further evaluate clinical efficacy and to further test for safety.



## **Table of Contents**

We cannot be certain that we will successfully complete Phase 1, Phase 2 or Phase 3 testing of any compound within any specific time period, if at all. Furthermore, the FDA or the sponsor may suspend clinical trials at any time on various grounds, including a finding that the subjects or patients are being exposed to an unacceptable health risk.

The results of product development, preclinical studies and clinical studies are submitted to the FDA as part of an NDA. The FDA may refuse to accept an NDA for filing if it finds that the NDA is not sufficiently complete to permit a substantive review. Even if the FDA files the NDA, the FDA may ultimately decide that the NDA does not satisfy the criteria for approval. Once the NDA is approved, the FDA may withdraw product approval or limit product use if compliance with regulatory standards is not maintained or if problems occur after the product reaches the market. In addition, the FDA may require testing and surveillance programs to monitor the effect of approved products which have been commercialized, and the FDA has the power to prevent or limit further marketing of a product based on the results of these post-marketing programs.

Satisfaction of the above FDA requirements or similar requirements of state, local and foreign regulatory agencies typically takes several years and the actual time required may vary substantially, based upon the type, complexity and novelty of the product or indication. The FDA may grant fast track approval for therapies intended to treat severe or life-threatening diseases such as cancer or AIDS. This route to approval is intended to shorten the total time for clinical studies and marketing approvals for a drug to treat life-threatening illnesses; however, there can be no assurance that these fast track procedures will shorten the time of approval for any of our product candidates. Government regulation may delay or prevent marketing of potential products for a considerable period of time and impose costly procedures upon our or our partners activities. The FDA or any other regulatory agency may not grant any approvals on a timely basis, if at all. Success in early stage clinical trials does not assure success in later stage clinical trials. Data obtained from clinical activities is not always conclusive and may be susceptible to varying interpretations which could delay, limit or prevent regulatory approval. Even if a product receives regulatory approval, the approval may be significantly limited to specific indications and dosages. Delays in obtaining, or failures to obtain regulatory approvals may have a material adverse effect on our business. In addition, we cannot predict what adverse governmental regulations may arise from future U.S. or foreign governmental action.

Any products manufactured or distributed by us pursuant to FDA approvals are subject to pervasive and continuing regulation by the FDA, including record-keeping requirements and reporting of adverse experiences with the drug. Drug manufacturers and their subcontractors are required to register their establishments with the FDA and certain state agencies, and are subject to periodic unannounced inspections by the FDA to assess compliance with current Good Manufacturing Practices, which impose certain procedural and documentation requirements upon us and our third-party manufacturers. We cannot be certain that we or our present or future suppliers will be able to comply with current Good Manufacturing Practices regulations and other FDA regulatory requirements.

*Molecular diagnostics.* We are subject to governmental regulation at the federal, state, and local levels as a clinical laboratory. The Clinical Laboratory Improvement Amendments (CLIA) provide for the regulation of clinical laboratories by the Department of Health and Human Services, or HHS, and we are subject to HHS regulations, which mandate that all clinical laboratories be certified to perform testing on human specimens and provide specific conditions for certification. These regulations also contain guidelines for the qualification, responsibilities, training, working conditions and oversight of clinical laboratory employees. In addition, specific standards are imposed for each type of test which is performed in a laboratory. CLIA and the regulations promulgated thereunder are enforced through quality inspections of test methods, equipment, instrumentation, materials and supplies on a periodic basis. We are CLIA certified and any change in CLIA or these regulations or in the interpretation thereof could have a material adverse effect on our business.

The FDA has regulatory responsibility over instruments, test kits, reagents and other medical devices used to perform diagnostic testing by clinical laboratories. In the past, the FDA has claimed regulatory authority over laboratory-developed tests, but has exercised enforcement discretion in not regulating most laboratory-developed tests performed by high complexity CLIA-certified laboratories. FDA has indicated in the past that it intends to revisit its regulations on specific reagents, which are used in laboratory-developed tests, including laboratory developed genetic testing. Increased FDA regulation of these reagents could lead to increased costs and delays in introducing new tests and could result in our having to obtain clearance or approval for our tests as FDA-regulated medical devices.

## **Table of Contents**

Some states have implemented regulations concerning molecular diagnostic testing that require licensing or registration of general clinical laboratory activities. We believe that we have taken all steps required of us in such jurisdictions in order for us to conduct business in those jurisdictions. However, we may not be able to maintain state level regulatory compliance in all states where we do and intend to do business. Failure to maintain state regulatory compliance, or changes in state regulatory schemes, could result in a substantial curtailment or even prohibition of our clinical activities and could have a material adverse effect on our business.

In 1996, Congress passed the Health Insurance Portability and Accountability Act ( HIPAA ). HIPAA, among other things, required HHS to issue regulations that are designed to improve the efficiency and effectiveness of the health care system by facilitating the transfer of health information along with protecting the confidentiality and security of health information. Specifically, Title II of HIPAA, the Administrative Simplification Act, contains four provisions that address the privacy of health data, the security of health data, the standardization of identifying numbers used in the health care system and the standardization of data content, codes and formats used in health care transactions. We are currently subject to the HIPAA regulations and maintain an active program designed to address regulatory compliance issues. Penalties for non-compliance with HIPAA include both civil and criminal penalties. Violations could result in civil penalties of up to \$25,000 per type of violation in each calendar year and criminal penalties of up to \$250,000 per violation.

The privacy regulations protect medical records and other personal health information by limiting its use and release, giving patients the right to access their medical records and limiting most disclosures of health information to the minimum amount necessary to accomplish an intended purpose. In addition to the federal privacy regulations, there are a number of state laws regarding the confidentiality of health information that are applicable to clinical laboratories. The penalties for violation of state privacy laws may vary widely and new privacy laws in this area are pending. We believe that we have taken the necessary steps required of us to comply with health information privacy and confidentiality statutes and regulations in all jurisdictions, both state and federal. However, we may not be able to maintain compliance in all jurisdictions where we do business. Failure to maintain compliance, or changes in state or federal laws regarding privacy, could result in civil and/or criminal penalties and could have a material adverse effect on our business.

HHS has transactions and code sets regulations which establish standards for eight electronic transactions and for code sets to be used in those transactions. They also contain requirements concerning the use of these standards by health plans, healthcare clearinghouses, and certain health care providers. In addition, HHS has security regulations which establish standards for the security of electronic protected health information to be implemented by health plans, health care clearinghouse, and certain health care providers. We believe that we have taken the necessary steps required of us to comply with both the transactions and code sets as well as the security regulations. However, failure to maintain compliance with these regulations could result in civil and/or criminal penalties and could have a material adverse effect on our business.

Our business is also subject to regulation under state and federal laws regarding environmental protection and hazardous substances control, such as the Occupational Safety and Health Act, the Environmental Protection Act, and the Toxic Substance Control Act. We believe that we are in material compliance with these and other applicable laws and that our ongoing compliance will not have a material adverse effect on our business. However, statutes or regulations applicable to our business may be adopted which impose substantial additional costs to assure compliance or otherwise materially adversely affect our operations.

## **Reimbursement**

Sales of pharmaceutical and predictive medicine products depend in significant part on the availability of third-party reimbursement. We anticipate that third-party payors will provide reimbursement for our products. It is time consuming and expensive for us to seek reimbursement from third-party payors. Reimbursement may not be available or sufficient to allow us to sell our products on a competitive and profitable basis.

The passage of the Medicare Prescription Drug and Modernization Act of 2003 (MMA) imposes new requirements for the distribution and pricing of prescription drugs for Medicare beneficiaries which may affect the marketing of our products. Although the MMA has increased access to pharmaceuticals through implementation of Part D in 2006, this may lead to increased pressure on prices coming from the concentrated buying power of the Managed

## **Table of Contents**

Care Organizations (MCOs) that administer the Part D plans on behalf of Medicare beneficiaries. These MCOs, along with Pharmacy Benefit Managers, negotiate pricing discounts to secure formulary placement for the plan or for their employer clients. Failure to achieve favorable status or failure to be included in these formularies could have a materially adverse affect on our business. Moreover, while the MMA applies only to drug benefits for Medicare beneficiaries, private payors often follow Medicare coverage policy and payment limitations in setting their own payment rates. Any reduction in payment that results from the MMA may result in a similar reduction in payments from non-governmental payors which could have a materially adverse affect on our business.

In addition, in some foreign countries, the proposed pricing for a drug must be approved before it may be lawfully marketed. The requirements governing drug pricing vary widely from country to country. We expect that there will continue to be a number of federal and state proposals to implement governmental pricing controls. While we cannot predict whether such legislative or regulatory proposals will be adopted, the adoption of such proposals could have a material adverse effect on our business, financial condition and profitability.

## **Available Information**

We are a Delaware corporation with our principal executive offices located at 320 Wakara Way, Salt Lake City, Utah 84108. Our telephone number is 801.584.3600 and our web site address is [www.myriad.com](http://www.myriad.com). We make available free of charge through the Investor Relations section of our web site our Corporate Code of Conduct and Ethics, as well as our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, current reports on Form 8-K and all amendments to those reports as soon as reasonably practicable after such material is electronically filed with or furnished to the Securities and Exchange Commission. We include our web site address in this Annual Report on Form 10-K only as an inactive textual reference and do not intend it to be an active link to our web site.

## **Human Resources**

As of September 1, 2006, we had 722 full-time equivalent employees, including 89 persons holding doctoral or medical doctor degrees. Most of our employees are engaged directly in research, development, production and marketing activities. We believe that the success of our business will depend, in part, on our ability to attract and retain qualified personnel.

Our employees are not covered by a collective bargaining agreement, and we consider our relations with our employees to be good.



## **Table of Contents**

### **Item 1A. RISK FACTORS**

#### **Risks Related to Our Business and Our Strategy**

*We are a company in the early stages of development and commercialization and may never achieve the goals of our business plan.*

Although we have developed and marketed several predictive medicine products to date, we believe our future success is dependent upon our ability to successfully develop and commercialize additional predictive medicine products and our potential therapeutic products. All of our therapeutic products are still in development and many are still in the early stages of development. We have entered into Phase 3 human clinical trials for the evaluation of Flurizan, our lead therapeutic compound, for the treatment of Alzheimer's disease. Our drug candidate MPC-7869 is the subject of a large, multi-center Phase 2b human clinical trial for prostate cancer. Our drug candidate Azixa is currently the subject of two Phase 1 human clinical trials for advanced solid tumors and metastatic brain cancer. Our drug candidate MPC-2130 is currently the subject of a Phase 1 human clinical trial for advanced metastatic tumors or blood cancers as well as refractory cancer that has progressed despite previous chemotherapy. Our drug candidate MPC-0920 is currently the subject of a Phase 1 human clinical trial for the treatment of thrombosis. Other potential therapeutic products are in various stages of pre-clinical development. Any therapeutic products under development by us will take several more years to develop and undergo extensive preclinical and clinical testing. Additionally, therapeutic products are subject to substantial regulatory review. We may be unable to discover or develop any therapeutic or additional predictive medicine products through the utilization of our technologies. Even if we develop products for commercial use, we may not be able to develop products that:

meet applicable regulatory standards, in a timely manner or at all;

successfully compete with other technologies and products;

avoid infringing the proprietary rights of others;

can be manufactured in sufficient quantities or at reasonable cost; or

can be successfully marketed.

We must generate significant revenue to achieve and maintain profitability. All of our therapeutic drug candidates are still in development. Even if we succeed in developing and commercializing one or more of our therapeutic drug candidates, we may not be able to generate sufficient revenue and we may never be able to achieve or maintain profitability.

*We depend heavily on the success of our lead product candidate, Flurizan, which is still under development.*

We have invested a significant portion of our resources in the development of Flurizan. We anticipate that our future success will depend heavily on the successful development and commercialization of Flurizan for Alzheimer's disease. The commercial success of Flurizan will depend on several factors, including the following:

successful completion of our current Phase 3 clinical trials in Flurizan for the treatment of Alzheimer's disease and any additional trials that may be required by the FDA or that we may initiate on our own;

receipt of marketing approvals from the FDA and similar foreign regulatory authorities;

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if approved, the successful commercial launch of Flurizan;

producing batches of the active pharmaceutical ingredient used in Flurizan in commercial quantities through a validated process;

manufacturing and supplying Flurizan in sufficient quantities to meet commercial demand; and

acceptance of Flurizan or competitive products in the medical community and with third-party payors.

If we are not successful in developing or commercializing Flurizan, or we are significantly delayed in doing so, our business will be materially harmed and we may need to curtail or cease drug development operations.

***We have a history of operating losses and expect to continue to incur losses in the future.***

We have a limited operating history and have experienced operating losses since our inception. We expect these losses to continue for the next several years, and we may never be profitable. For example, we experienced net

## Table of Contents

losses of \$38.2 million, \$40.0 million, and \$40.6 million for the years ended June 30, 2006, 2005, and 2004, respectively. We had an accumulated deficit of \$217.4 million as of June 30, 2006. In order to develop and commercialize our products, we expect to incur significant increases in our expenses over the next several years as we expand clinical trials for our product candidates currently in clinical development, including Flurizan, advance our other product candidates into clinical trials, expand our research and development activities, and seek regulatory approvals and engage in commercialization activities in anticipation of potential United States FDA, and other foreign regulatory approvals of our product candidates. Because of the numerous risks and uncertainties associated with developing our product candidates and their potential for commercialization, we are unable to predict the extent of any future losses or when we will become profitable, if at all. Even if we do achieve profitability, we may not be able to sustain or increase profitability on a quarterly or annual basis. If we are unable to achieve and sustain profitability, the market value of our common stock will likely decline. Our ability to achieve profitability will depend upon numerous factors, including:

our ability to identify drug targets and lead compounds that may lead to future therapeutic products;

our ability to develop candidate drugs and receive required regulatory approvals;

our ability to launch new therapeutic products;

the approval and introduction of competitive products;

the willingness of third-party payors to provide full or even partial reimbursement coverage for our products;

our ability to develop a sales force and marketing team to market our therapeutic products; and

our ability to create and introduce additional marketable predictive and personalized medicine products.

***If our current operating plan changes and we find that our existing capital resources will not meet our needs, we may find it necessary to raise additional funding, which funding may not be available.***

We anticipate that our existing capital resources will enable us to maintain currently planned operations for at least the next two years. However, we base this expectation on our current operating plan, which may change. We have incurred, and will continue to incur, significant costs in the discovery, development and marketing of current and prospective therapeutic and predictive and personalized medicine products. Our ongoing drug discovery programs and our efforts to develop therapeutic and predictive medicine products will require substantial cash resources. If, for example, we discover a new drug target with promising therapeutic properties, we would require funding in addition to our current operating plan to move the drug candidate into preclinical studies and human clinical trials. Additionally, if a new disease gene is discovered through these efforts, we would require funds in addition to our current operating plan to demonstrate clinical utility and develop and launch a new predictive or personalized medicine product. If, due to changes in our current operating plan, adequate funds are not available, we may be required to raise additional funds. Sources of potential additional capital resources may include, but are not limited to, public or private equity financings, establishing a credit facility, or selling convertible debt securities. This additional funding, if necessary, may not be available to us on reasonable terms, or at all.

Because of our potential long-term capital requirements, we may access the public or private equity markets whenever conditions are favorable, even if we do not have an immediate need for additional capital at that time. We have an effective shelf registration on file with the SEC pursuant to which up to \$151.1 million of our securities remain available for sale at our discretion, subject to certain limitations under federal securities laws and the rules of the NASDAQ Stock Market. In addition, we currently qualify as a well known seasoned issuer, or WKSI. Accordingly, we can at any time file a registration statement registering additional securities which would become automatically effective upon filing. If additional funds are raised by issuing equity securities, existing shareholders may suffer significant dilution.

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*We have limited sources of revenue and if we are unable to secure additional funding, we will have to reduce or discontinue operations.*

As of June 30, 2006, we had approximately \$227.7 million in cash, cash equivalents and marketable securities. For the fiscal year ended June 30, 2006 our revenues were approximately \$114.3 million, and cash used in operating activities was approximately \$28.0 million. Almost all of our revenues result from sales of our predictive medicine products and our research collaborations. In order to develop and bring our therapeutic product candidates to market, we must commit substantial resources to costly and time-consuming research, preclinical testing and clinical trials.

**Table of Contents**

While we anticipate that our existing cash, cash equivalents and marketable securities will be sufficient to fund our current operations through the next two years, we may need or want to raise additional financing within this period of time. Our future capital requirements will depend on many factors that are currently unknown to us, including:

the progress and results of our current Phase 3 clinical trials of Flurizan for the treatment of Alzheimer's disease and any additional trials that may be required by the FDA or that we may initiate on our own;

the progress and results of our current Phase 2b clinical trial of MPC-7869 for the treatment of prostate cancer and any additional trials that may be required by the FDA or that we may initiate on our own;

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

the progress and results of our Phase 1 clinical trials for Azixa, MPC-2130, MPC-0920, and any future trials we may initiate based on the Phase 1 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 Flurizan, MPC-7869, Azixa, MPC-2130, MPC-0920, and any other preclinical drug candidates that progress to clinical trials;

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 progress, results, and costs of developing personalized medicine products and additional predictive medicine products;

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

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

the costs to satisfy our obligations under potential future collaborations; and

the timing, receipt and amount of sales or royalties, if any, from Flurizan, MPC-7869, Azixa, MPC-2130, MPC-0920, and any other drug candidates.

Additional funds may not be available when we need them on terms that are acceptable to us, if at all. If adequate funds are not available on a timely basis, we may be required to:

terminate or delay preclinical studies, clinical trials, regulatory approvals, or other development for one or more of our drug candidates;

delay our establishment of sales and marketing capabilities, commercial manufacturing capabilities, or other activities that may be necessary to commercialize our drug candidates; or

curtail significant drug development programs that are designed to identify new drug candidates;

enter into strategic collaborations that we would otherwise not enter into on terms less favorable than we would otherwise obtain.

***If we were successfully sued for product liability, we could face substantial liabilities that exceed our resources.***

Our business exposes us to potential liability risks inherent in the testing, marketing and processing of predictive or personalized medicine products, including possible misdiagnoses. In addition, clinical trials or marketing of any potential therapeutic products may expose us to liability claims from the use of these therapeutic products. Although we are insured against such risks in amounts that we believe to be commercially reasonable, our present product liability insurance may be inadequate. A successful product liability claim in excess of our insurance coverage could have a material adverse effect on our business. Any successful product liability claim may prevent us from obtaining adequate product liability insurance in the future on commercially desirable or reasonable terms. An inability to obtain sufficient insurance coverage at an acceptable cost or otherwise to protect against potential product liability claims could prevent or inhibit the commercialization of our products.

***Our business involves environmental risks that may result in liability for us.***

In connection with our research and development activities, we are subject to federal, state and local laws, rules, regulations and policies governing the use, generation, manufacture, storage, air emission, effluent discharge, handling and disposal of certain materials, biological specimens, chemicals and wastes. Although we believe that we

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## **Table of Contents**

have complied with the applicable laws, regulations and policies in all material respects and have not been required to correct any material noncompliance, we may be required to incur significant costs to comply with environmental and health and safety regulations in the future. Although we believe that our safety procedures for handling and disposing of controlled materials comply with the standards prescribed by state and federal regulations, accidental contamination or injury from these materials may occur. In the event of such an occurrence, we could be held liable for any damages that result and any such liability could exceed our resources.

### **Risks Related to Regulatory Approval of Our Drug Candidates and Other Government Regulations**

*If we do not obtain required regulatory approval, we will be unable to market and sell our therapeutic candidates.*

Our therapeutic candidates are subject to extensive regulation by the FDA and similar regulatory agencies in other countries relating to development, clinical trials, manufacturing and commercialization. In the U.S. and in many foreign jurisdictions, rigorous preclinical testing and clinical trials and an extensive regulatory review process must be successfully completed before a new therapeutic can be sold. Satisfaction of these and other regulatory requirements is costly, time consuming, uncertain and subject to unanticipated delays. The time required to obtain approval by the FDA is unpredictable and depends on many factors, including the complexity of the therapeutic candidate. Our clinical trials for Flurizan, MPC-7869, Azixa, MPC-0920, and MPC-2130 have been studied in a relatively small number of patients. Early-stage clinical trials in small numbers of patients are often not predictive of results in later-stage clinical trials with a larger and more diverse patient population. Even therapeutic candidates with favorable results in late-stage pivotal clinical trials may fail to get approved for commercialization for many reasons, including:

failure to demonstrate to the satisfaction of the FDA or comparable foreign regulatory authorities that a therapeutic candidate is safe and effective for a particular indication;

inability to demonstrate that a therapeutic candidate's benefits outweigh its risks;

inability to demonstrate that the therapeutic candidate presents a significant advantage over existing therapies;

the FDA's or comparable foreign regulatory authorities' disagreement with the manner in which we and our collaborators interpret the data from preclinical studies or clinical trials;

the FDA's or comparable foreign regulatory authorities' failure to approve our manufacturing processes or facilities or the processes or facilities of our collaborators; or

a change in the approval policies or regulations of the FDA or comparable foreign regulatory authorities.

It is possible that none of our current therapeutic candidates or any other therapeutic candidates we may seek to develop in the future will ever obtain the appropriate regulatory approvals necessary for us to begin selling them.

*Our clinical trials may not yield results that will enable us to obtain regulatory approval for our therapeutic candidates.*

We will only receive regulatory approval to commercialize a therapeutic candidate if we can demonstrate to the satisfaction of the FDA or the applicable foreign regulatory agency, in well-designed and conducted clinical trials, that the therapeutic candidate is safe and effective and otherwise meets the appropriate standards required for approval for a particular indication. Clinical trials are lengthy, complex and extremely expensive processes with uncertain results. We have limited experience in conducting and managing the clinical trials necessary to obtain regulatory approvals, including approval by the FDA. In connection with the clinical trials of our current therapeutic candidates and any other therapeutic candidates that we may seek to develop in the future, we face risks including that:

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the therapeutic candidate may not prove to be safe and efficacious;

patients may die or suffer other adverse effects for reasons that may or may not be related to the therapeutic candidate being tested;

the results of later-stage clinical studies may not confirm the positive results of earlier trials;

the results may not meet the level of statistical significance required by the FDA or other regulatory agencies for approval; and

the FDA or other regulatory agencies may require additional or expanded trials.



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## **Table of Contents**

Of the large number of drugs in development, only a small percentage result in the submission of an NDA to the FDA and even fewer are approved for commercialization. If we fail to demonstrate the safety and efficacy of our therapeutic candidates, we will not be able to obtain the required regulatory approvals to commercialize these therapeutic candidates. Furthermore, even if we do receive regulatory approval to market a commercial product, any such approval may be subject to limitations on the indicated uses for which we may market the product.

***Because our therapeutic candidates are in an early stage of development, there is a high risk of failure, and we may never succeed in developing marketable products or generating product revenue.***

We have no therapeutic candidates that have received regulatory approval for commercial sale. Our most advanced therapeutic candidate is Flurizan for the treatment of Alzheimer's disease. We completed a Phase 2 clinical trial of Flurizan for the treatment of Alzheimer's disease in April 2005, and we have initiated two pivotal Phase 3 clinical trials. MPC-7869 is currently being studied for treatment of prostate cancer in a Phase 2b clinical trial in the United States. Our three other clinical-stage therapeutic candidates, Azixa, MPC-2130, and MPC-0920 are currently in Phase 1 clinical trials. We do not expect to have any commercial therapeutic products on the market for at least the next several years, if at all. Trial and error is inherent in drug discovery and development, and we may fail at numerous stages along the way. Success in preclinical studies of a drug candidate may not be predictive of similar results in humans during clinical trials, and successful results from early clinical trials of a drug candidate may not be replicated in later clinical trials. We may face additional challenges with some of our drug candidates that are members of new classes of drugs which attempt to modify the course of a disease rather than simply addressing the symptoms of the disease. Measurement of success, protocols and regulatory standards for such disease-modifying drugs have not been defined and are still evolving. A number of companies in the pharmaceutical and biotechnology industries have suffered significant setbacks in late-stage clinical trials even after achieving promising results in early-stage development. Accordingly, the results from the completed and ongoing studies and trials for Flurizan, MPC-7869, Azixa, MPC-0920, and MPC-2130 may not be predictive of the results we may obtain in later-stage trials.

***If clinical trials for our therapeutic candidates are prolonged or delayed, we may be unable to commercialize our therapeutic candidates on a timely basis, which would require us to incur additional costs and delay our receipt of any revenue from potential product sales.***

We may encounter problems with our completed, ongoing or planned clinical trials that will cause us or any regulatory authority to delay or suspend those clinical trials or delay the analysis of data derived from them. A number of events, including any of the following, could delay the completion of our ongoing and planned clinical trials and negatively impact our ability to obtain regulatory approval for, and to market and sell, a particular therapeutic candidate, including our clinical-stage drug candidates:

modifications or conditions imposed on us by the FDA or any foreign regulatory authority regarding the scope or design of our clinical trials, including modifications to or conditions imposed on ongoing trials based on the results and data from completed trials;

delays in obtaining, or our inability to obtain, required approvals from institutional review boards or other reviewing entities at clinical sites selected for participation in our clinical trials;

insufficient supply or deficient quality of our drug candidates or other materials necessary to conduct our clinical trials;

negative or inconclusive results from clinical trials, or results that are inconsistent with earlier results, that necessitate additional clinical study;

clinical trial holds imposed by the data safety monitoring committees for our trials due to serious and/or unexpected drug-related side effects experienced by subjects in clinical trials; or

failure of our third-party contractors or our investigators to comply with regulatory requirements or otherwise meet their contractual obligations to us in a timely manner.

Our clinical trials may not begin as planned, may need to be restructured, and may not be completed on schedule, if at all. We meet with the FDA and other governmental and self-regulatory bodies from time-to-time regarding our



## **Table of Contents**

research and clinical trials. Any such meeting could provide us with new information or requirements that would cause us to modify ongoing or future clinical trials or research efforts, which could delay or make commercially untenable such clinical trials or research efforts. Delays in our clinical trials may result in increased development costs for our drug candidates. In addition, if our clinical trials are delayed, our competitors may be able to bring products to market before we do and the commercial viability of our drug candidates, including our clinical-stage therapeutic candidates, could be significantly reduced.

***If we encounter difficulties enrolling subjects in our clinical trials, or subjects drop out of trials in progress, our trials could be delayed or otherwise adversely affected.***

Clinical trials for our therapeutic candidates require sufficient patient enrollment. We may not be able to enroll a sufficient number of qualified patients in a timely or cost-effective manner. Any delays in patient enrollment could result in increased costs and longer development times. Enrollment of patients is affected by many factors, including:

the limited size of the patient population for certain target indications;

the nature and design of the trial protocol;

the proximity of patients to clinical sites;

the availability of other effective treatments for the relevant disease (whether approved or experimental);

the eligibility criteria for enrollment in our clinical trials;

perceived risks and benefits of the drug candidate under study; and

competing studies or trials.

Our failure to enroll patients in our clinical trials could delay the completion of the clinical trial beyond our current expectations. Furthermore, enrolled patients may drop out of our clinical trials, which could impair the validity or statistical significance of the clinical trials. In addition, the FDA could require us to conduct clinical trials with a larger number of subjects than we have projected for any of our therapeutic candidates. If we have difficulty enrolling or retaining a sufficient number of patients to participate and complete our clinical trials as planned, we may need to delay or terminate ongoing or planned clinical trials. Delays in enrolling patients in our clinical trials or the withdrawal of subjects enrolled in our clinical trials would adversely affect our ability to develop and seek approval for our drug candidates, could delay or eliminate our ability to generate products and revenue and could impose significant additional costs on us.

***Failure to comply with foreign regulatory requirements governing human clinical trials and marketing approval for drugs could prevent us from selling our drug candidates in foreign markets, which may adversely affect our operating results and financial condition.***

The requirements governing the conduct of clinical trials, product licensing, pricing and reimbursement for marketing our therapeutic candidates outside the U.S. vary greatly from country to country and may require additional testing. We have no experience in obtaining foreign regulatory approvals for our therapeutic drug candidates. The time required to obtain approvals outside the U.S. may differ from that required to obtain FDA approval. We may not obtain foreign regulatory approvals on a timely basis, if at all. Approval by the FDA does not ensure approval by regulatory authorities in other countries, and approval by one foreign regulatory authority does not ensure approval by regulatory authorities in other countries or by the FDA. Failure to comply with these regulatory requirements or obtain required approvals could impair our ability to develop foreign markets for our therapeutic candidates.

***Our therapeutic candidates will remain subject to ongoing regulatory requirements even if they receive marketing approval, and if we fail to comply with requirements, we could lose these approvals and the sale of any approved commercial products could be suspended.***

Even if we receive regulatory approval to market a particular therapeutic candidate, the product will remain subject to extensive regulatory requirements, including requirements relating to manufacturing, labeling, packaging, adverse event reporting, storage, advertising, promotion and record keeping. In addition, as clinical experience with a drug expands after approval because it is typically used by a greater number of patients after approval than during clinical trials, side effects and other problems may be observed after approval that were not seen or anticipated during pre-approval

## **Table of Contents**

clinical trials. Such post-approval problems are sometimes not well understood until after a new drug has been on the market for some time. If we fail to comply with the regulatory requirements of the FDA and other applicable U.S. and foreign regulatory authorities or previously unknown problems with any approved commercial products, manufacturers or manufacturing processes are discovered, we could be subject to administrative or judicially imposed sanctions or other setbacks, including:

restrictions on the products, manufacturers or manufacturing processes;

civil or criminal penalties;

fines;

injunctions;

product seizures or detentions;

import bans;

product recalls and related publicity requirements;

suspension or withdrawal of regulatory approvals;

total or partial suspension of production; and

refusal to approve pending applications for marketing approval of new products or supplements to approved applications.

***If we are unable to comply with applicable governmental regulations, we may not be able to continue our predictive and personalized medicine operations.***

The establishment and operation of our molecular diagnostic laboratory and the production and marketing of services and products developed through our technologies, as well as our ongoing research and development activities, are subject to regulation by numerous federal, state and local governmental authorities in the United States. We have been accredited under the Clinical Laboratory Evaluation Program by the Department of Health of the State of New York. Failure to maintain state regulatory compliance, or changes in state regulatory schemes, could result in a substantial curtailment or even prohibition of our clinical activities and could have a material adverse effect on our business. We have received federal accreditation from the Department of Health and Human Services under CLIA to operate our clinical laboratory. However, our accreditation may subsequently be revoked, suspended or limited, or our accreditation may not be renewed on an annual basis as required. Furthermore, while the FDA has elected not to substantially regulate the activities or tests performed by laboratories like our clinical laboratory, the FDA has stated that it has the right to do so, and the FDA may seek to regulate or require clearance or approval of our products in the future. If the FDA should require that these products receive FDA approval prior to their use in our laboratory, this approval may not be received on a timely basis, if at all.

## **Risks Related to Commercialization of Our Products and Product Candidates**

*Our current predictive medicine products and other predictive and personalized medicine or therapeutic products that we may develop may never achieve significant commercial market acceptance.*

We may not succeed in achieving significant commercial market acceptance of any of our products and services. While we have marketed several of our predictive medicine products for several years and have gained some market acceptance we need to convince physicians and consumers of the benefits of our current predictive medicine products in order to increase our sales of those products. Our ability to successfully commercialize our current predictive medicine products, as well as any future predictive or personalized medicine or therapeutic products that we may develop, will depend on several factors, including:

Our ability to convince the medical community of the safety and clinical efficacy of our products and their potential advantages over existing therapeutic products and predictive and personalized medicine products.

The agreement by third-party payors to provide full or even partial reimbursement coverage for our products, the scope and extent of which will affect patients willingness or ability to pay for our products and will likely heavily influence physicians' decisions to recommend our products.

The willingness of physicians and patients to utilize predictive and personalized medicine products which are difficult to perform and interpret. This difficulty is caused by a combination of factors, including the large number, sometimes many hundreds, of different mutations in the genes which our tests analyze, the

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**Table of Contents**

need to characterize each specific mutation, and the ability of our products to predict only as to a statistical probability, not certainty, that a tested individual will develop the disease for which the test has been completed.

These factors present obstacles to significant commercial acceptance of our products, which we will have to spend substantial time and money to overcome, if we can do so at all. Our inability to successfully do so will harm our business.

***We may not be able to maintain or increase revenue growth and profitability for our predictive medicine products.***

We have experienced revenue growth in our predictive medicine business over past years; however, we may not be able to continue this revenue growth or maintain existing revenue levels. Presently, our predictive medicine business subsidiary operates profitably providing a cash contribution to our other funding and operational needs. We may not be able to continue to operate our predictive medicine business on a profitable basis. Potential events or factors that may have a significant impact on our ability to sustain revenue growth and profitability for our predictive medicine business include the following:

increased costs of reagents and other consumables required for predictive medicine testing;

increased licensing or royalty costs;

increased personnel and facility costs;

inability to hire competent, trained staff, including medical doctors required to review and approve all reports we issue in our predictive medicine business, and sales personnel;

inability to obtain necessary equipment or reagents to perform predictive medicine testing;

inability to increase production capacity as demand increases; and

potential obsolescence of our products;

***We rely on a single laboratory facility to process our predictive medicine tests.***

We rely on a single, dedicated CLIA-approved clinical testing facility in Salt Lake City, Utah to process our predictive medicine tests. This facility and certain pieces of laboratory equipment would be difficult to replace and may require significant replacement lead-time. This facility may be affected by natural disasters such as earthquakes, floods and fires. In the event our clinical testing facility or equipment is affected by man-made or natural disasters, we would be unable to continue our predictive medicine business and meet customer demands for a significant period of time. Although we maintain insurance on this facility, including business interruption insurance, it may not be adequate to protect us from all potential losses if this facility were damaged or destroyed. In addition, any interruption in our predictive medicine business would result in a loss of goodwill, including damage to our reputation. If our predictive medicine business were interrupted, it would seriously harm our business.

***If we do not compete effectively with scientific and commercial competitors, we may not be able to successfully commercialize our products.***

The biotechnology research field is intense and highly competitive. This research is characterized by rapid technological change. Our competitors in the United States and abroad are numerous and include, among others, major pharmaceutical companies, reference laboratories, biotechnology firms, universities and other research institutions. Many of our potential competitors have considerably greater financial, technical, marketing and other resources than we do, which may allow these competitors to discover important genes and determine their function before we do. We could be adversely affected if we do not discover genes, proteins or protein pathways and characterize their function,

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develop therapeutic and predictive medicine products based on these discoveries, obtain regulatory and other approvals and launch these products and their related services before our competitors. We also expect to encounter significant competition with respect to any therapeutic or predictive medicine products that we may develop or commercialize. Those companies that complete clinical trials, obtain required regulatory approvals and commence commercial sales of therapeutic products before we do may achieve a significant competitive advantage in marketing and commercializing their products. We may not be able to develop therapeutic or predictive medicine products successfully and may not obtain patents covering these products that provide protection against



## **Table of Contents**

our competitors. Moreover, our competitors may succeed in developing therapeutic or predictive medicine products that circumvent our technologies or products. Furthermore, our competitors may succeed in developing technologies or products that are more effective than those developed by us or that would render our technologies or products less competitive or obsolete. We expect competition to intensify in the fields in which we are involved as technical advances in these fields occur and become more widely known.

***If we are unable to maintain relationships with current collaborative partners or enter into new collaborative arrangements, then our business could be harmed.***

Part of our current business strategy is to form collaborative arrangements with strategic partners to develop and commercialize therapeutic products in the therapeutic areas outside of our primary focus areas of cancer, infectious disease, and Alzheimer's disease. We currently depend and will depend in the future on third parties for support in product development, manufacturing, marketing and distribution. We may not be able to maintain our current collaborative arrangements or negotiate additional acceptable collaborative arrangements in the future. While we intend to market our therapeutic drugs that may become approved for sale to specialist physicians using our internal sales staff, we plan to market these products to other physicians by entering into a marketing arrangement with one or more large pharmaceutical companies. If we are unable to enter into such arrangements, or if the terms of any such arrangement are unfavorable to us, our business could be adversely affected.

Any current or future collaborative arrangement may not be successful. Failure of any collaborative arrangement, or termination by any of our collaborative partners of their respective agreements, could have a material adverse effect on our business. Further, additional milestone payments and future potential royalty payments from our collaborators are dependent upon their continuing to develop products based on the potential therapeutic targets we delivered to them. These partners may decide not to develop any products based on these targets. Even if these partners commence such development, they could decide to terminate it at any time.

In addition, our collaborative partners may pursue alternative technologies or develop alternative products either on their own or in collaboration with others, including our competitors, as a means of developing diagnostic products or treatments for the diseases targeted by our collaborative programs. Our interests may not continue to coincide with those of our collaborative partners, and some of our collaborative partners may develop, independently or with third parties, therapeutic or diagnostic products that could compete with those developed in collaboration with our partners or independently. Additionally, disputes over rights or technology or other proprietary interests may arise. Such disputes or disagreements between us and our collaborative partners could lead to delays in collaborative research projects, or could result in litigation or arbitration, any of which could have a material adverse effect on our business.

***If our current research collaborators or scientific advisors terminate their relationships with us or develop relationships with a competitor, our ability to discover genes, proteins and drug targets, and to commercialize therapeutic and predictive medicine products could be adversely affected.***

We have relationships with research collaborators at academic and other institutions who conduct research at our request. These research collaborators are not our employees. As a result, we have limited control over their activities and, except as otherwise required by our collaboration agreements, can expect only limited amounts of their time to be dedicated to our activities. Our ability to discover genes, proteins, and protein pathways involved in human disease and commercialize therapeutic and predictive medicine products will depend in part on the continuation of these collaborations. If any of these collaborations are terminated, we may not be able to enter into other acceptable collaborations. In addition, our existing collaborations may not be successful.

Our research collaborators and scientific advisors may have relationships with other commercial entities, some of which could compete with us. Our research collaborators and scientific advisors sign agreements which provide for the confidentiality of our proprietary information and the results of studies conducted at our request. We may not, however, be able to maintain the confidentiality of our technology and other confidential information in connection with every collaboration. The dissemination of our confidential information could have a material adverse effect on our business.

## **Table of Contents**

***If we fail to retain our key personnel and hire, train and retain qualified employees and consultants, we may not be able to successfully continue our business.***

Because of the specialized scientific nature of our business, we are highly dependent upon our ability to attract and retain qualified management, scientific and technical personnel. We are currently recruiting additional qualified management, scientific and technical personnel. Competition for such personnel is intense. Loss of the services of or failure to recruit additional key management, scientific and technical personnel would adversely affect our research and development programs and predictive medicine business and may have a material adverse effect on our business as a whole.

Our agreements with our employees generally provide for employment that can be terminated by either party without cause at any time, subject to specified notice requirements. Further, the non-competition provision to which each employee is subject expires on the applicable date of termination of employment.

***We have no experience manufacturing therapeutic products, and we currently intend to rely on third-party manufacturers to manufacture such products for us.***

We have no manufacturing experience and no commercial scale manufacturing capabilities for therapeutic products. We currently rely upon third parties to produce material for preclinical and clinical testing purposes and expect to continue to do so in the future. We also expect to rely upon third parties, including our collaborators, for the commercial production of approved therapeutic products. There are a limited number of manufacturers that operate under the FDA's current Good Manufacturing Practices regulations. If we are unable to arrange for third-party manufacturing of our products, or to do so on commercially reasonable terms, our clinical trials may be delayed, or we may not be able to complete development of our therapeutic products or market them.

Reliance on third-party manufacturers also entails risks to which we would not be subject if we manufactured products ourselves, including reliance on the third party for regulatory compliance and quality assurance, the possibility of breach of the manufacturing agreement by the third party because of factors beyond our control, the possibility of termination or non-renewal of the agreement by the third party, based on its own business priorities, at a time that is costly or inconvenient for us, and potential import/export issues with foreign manufacturers that we may use. Although we have no current intention to do so, if in the future we elected to manufacture certain of our therapeutic products in our own manufacturing facilities, we would need to invest substantial additional funds and recruit qualified personnel in order to build or lease and operate any manufacturing facilities.

***We have limited sales, marketing and distribution capabilities, and with respect to our potential therapeutic products, we may be dependent on third parties to successfully perform these functions on our behalf, or we may be required to incur significant costs and devote significant efforts to augment our existing capabilities.***

We have limited sales, marketing and distribution experience and capabilities. These capabilities consist primarily of our sales force that markets our cancer-related predictive medicine products to oncologists in the United States. We believe that if we develop therapeutic products in the area of cancer, given the concentrated nature of the oncology market, we would be able to leverage the efforts of our existing oncology sales force to market these products. However, depending on the nature of the therapeutic products and services for which we obtain marketing approval, we may need to rely significantly on sales, marketing and distribution arrangements with our collaborators and other third parties. For example, some types of pharmaceutical products, such as Alzheimer's disease, require a large sales force and extensive marketing capabilities for effective commercialization. To date, we have not entered into an arrangement for marketing any approved Alzheimer's disease drug, and we may not be able to do so on commercially reasonable terms when required. For therapeutic products for diseases with small medical specialty groups, such as AIDS, we may elect to develop our own sales and marketing force. If in the future we elect to perform sales, marketing and distribution functions for such types of products ourselves, we would face a number of additional risks, including the need to recruit a large number of additional experienced marketing and sales personnel.

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## **Table of Contents**

*We depend on a limited number of third parties for some of our supplies of equipment and reagents. If these supplies become unavailable, then we may not be able to successfully perform our research or operate our business at all or on a timely basis.*

We currently rely on a small number of suppliers to provide our gene sequencing machines, robots, and specialty reagents required in connection with our research. We believe that currently there are limited alternative suppliers of gene sequencing machines, robots, and reagents. The gene sequencing machines, robots, or the reagents may not remain available in commercial quantities at acceptable costs. If we are unable to obtain when needed additional gene sequencing machines, robots, or an adequate supply of reagents or other ingredients at commercially reasonable rates, our ability to continue to identify genes and perform molecular diagnostic testing would be adversely affected.

*If the government and third-party payors fail to provide coverage and adequate payment rates for our products and future products, if any, our revenue and prospects for profitability will be harmed.*

In both domestic and foreign markets, our sales of our predictive medicine products or any future products will depend in part, upon the availability of reimbursement from third-party payors. Such third-party payors include government health programs such as Medicare, managed care providers, private health insurers and other organizations. These third-party payors are increasingly attempting to contain health care costs by demanding price discounts or rebates and limiting both coverage on which drugs or tests they will pay for and the amounts that they will pay for new drugs or tests. The fact that a drug or test has been approved for reimbursement in the past, for any particular indication or in any particular jurisdiction, does not guarantee that such a drug or diagnostic test will remain approved for reimbursement or that similar or additional drugs or tests will be approved in the future. As a result, third-party payors may not cover or provide adequate payment for our current or future predictive and personalized medicine tests or, if approved, our drugs. We might need to conduct post-marketing studies in order to demonstrate the cost-effectiveness of any future products to such payors' satisfaction. Such studies might require us to commit a significant amount of management time and financial and other resources. Our future products might not ultimately be considered cost-effective. Adequate third-party reimbursement might not be available to enable us to maintain price levels sufficient to realize an appropriate return on investment in product development.

U.S. and foreign governments continue to propose and pass legislation designed to reduce the cost of health care. For example, in some foreign markets, the government controls the pricing of prescription pharmaceuticals. In the U.S., we expect that there will continue to be federal and state proposals to implement similar governmental controls. In addition, recent changes in the Medicare program and increasing emphasis on managed care in the U.S. will continue to put pressure on pharmaceutical product pricing. Cost control initiatives could decrease the price that we would receive for any products in the future, which would limit our revenue and profitability. Accordingly, legislation and regulations affecting the pricing of pharmaceuticals might change before our drug candidates are approved for marketing. Adoption of such legislation could further limit reimbursement for pharmaceuticals.

### **Risks Related to Our Intellectual Property**

*We may be unable to adequately prevent disclosure of trade secrets and other proprietary information.*

We rely on trade secrets to protect our proprietary technologies, especially where we do not believe patent protection is appropriate or obtainable. However, trade secrets are difficult to protect. We rely in part on confidentiality agreements with our employees, consultants, outside scientific collaborators, sponsored researchers and others to protect our trade secrets and other proprietary information. These agreements may not effectively prevent disclosure of confidential information and may not provide an adequate remedy if unauthorized disclosure of confidential information occurs. In addition, others may independently discover our trade secrets and proprietary information. Costly and time-consuming litigation could be necessary to enforce and determine the scope of our proprietary rights, and failure to obtain or maintain trade secret protection could adversely affect our competitive position. We rely on trade secrets and confidentiality in particular with respect to our drug discovery technology and any future competitive advantage provided by it. We may not enjoy any such competitive advantage if we are not able to effectively maintain and enforce any trade secret rights relating to our drug discovery technology.

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**Table of Contents**

*If we are not able to protect our proprietary technology, others could compete against us more directly, which would harm our business.*

As of June 30, 2006, our patent portfolio included over 300 issued patents owned or licensed by us and numerous patent applications in the United States and other countries with claims covering our intellectual property rights. Our commercial success will depend, in part, on our ability to obtain additional patents and licenses and protect our existing patent position, both in the United States and in other countries, for drug targets we discover, for therapeutic compounds we develop, for predisposing genes we identify and related technologies, processes, methods and other inventions that we believe are patentable. Our ability to preserve our trade secrets and other intellectual property is also critical to our long-term success. If we do not adequately protect our intellectual property, competitors may be able to use our technologies and erode or negate any competitive advantage we may have, which could harm our business and ability to achieve profitability. Patents may also issue to third parties which could interfere with our ability to bring one or more of our drug candidates to market. The laws of some foreign countries do not protect our proprietary rights to the same extent as the laws of the U.S., and we may encounter significant problems in protecting our proprietary rights in these countries.

The patent positions of biotechnology and pharmaceutical companies, including our patent position, are generally highly uncertain and involve complex legal and factual questions, and, therefore, any patents issued to us may be challenged, deemed unenforceable, invalidated or circumvented. We will be able to protect our proprietary rights from unauthorized use by third parties only to the extent that our proprietary technologies, drug candidates, and any future products are covered by valid and enforceable patents or are effectively maintained as trade secrets. To date there has not emerged from the United States Patent and Trademark Office, or PTO, the United States courts, or from patent offices or courts in foreign countries, a consistent policy regarding the breadth of claims allowed in biotechnology patents. Our patent applications may never issue as patents, and the claims of any issued patents may not afford meaningful protection for our technology or products. In addition, any patents issued to us or our licensors may be challenged, and subsequently narrowed, invalidated or circumvented. The degree of future protection for our proprietary rights is uncertain, and we cannot ensure that:

we or our licensors were the first to make the inventions covered by each of our pending patent applications;

we or our licensors were the first to file patent applications for these inventions;

others will not independently develop similar or alternative technologies or duplicate any of our technologies;

any of our or our licensors pending patent applications will result in issued patents;

any of our or our licensors patents will be valid or enforceable;

any patents issued to us or our licensors and collaborators will provide a basis for commercially viable products, will provide us with any competitive advantages or will not be challenged by third parties;

we will develop additional proprietary technologies or drug candidates that are patentable; or

the patents of others will not have an adverse effect on our business.

If a third party files a patent application with claims to a drug target, gene or protein we have discovered, the PTO may declare an interference between competing patent applications. If an interference is declared, we may not prevail in the interference. If the other party prevails in the interference, we may be precluded from commercializing services or products based on the drug target, gene or protein, or may be required to seek a license. A license may not be available to us on commercially acceptable terms, if at all.

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We also rely upon unpatented proprietary technologies. Although we require employees, consultants and collaborators to sign confidentiality agreements, we may not be able to adequately protect our rights in such unpatented proprietary technologies, which could have a material adverse effect on our business. For example, others may independently develop substantially equivalent proprietary information or techniques or otherwise gain access to our proprietary technologies or disclose our technologies to our competitors.

*If we were sued for patent infringement by third parties, we might incur significant costs and delays in product introduction.*

Our products may also conflict with patents that have been or may be granted to others. Our industry includes many organizations seeking to rapidly identify drug targets, small-molecule compounds, proteins, and genes through the use of genomic, proteomic and other technologies. To the extent any patents are issued to those organizations on

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## **Table of Contents**

drug targets, proteins, genes or uses for such genes and proteins, the risk increases that the sale of our predictive and personalized medicine products currently being marketed or under development, and any sales of therapeutic drugs developed by us, may give rise to claims of patent infringement. Others may have filed and in the future are likely to file patent applications covering genes or drug targets that are similar or identical to our products. Any of these patent applications may have priority over our patent applications and these entities or persons could bring legal proceedings against us seeking damages or seeking to enjoin us from testing, manufacturing or marketing our products. Patent litigation is costly, and even if we prevail, the cost of such litigation could have a material adverse effect on us. If the other parties in any such actions are successful, in addition to any liability for damages, we could be required to cease the infringing activity or obtain a license. Any license required may not be available to us on commercially acceptable terms, if at all. Our failure to obtain a license to any technology that we may require to commercialize our products could have a material adverse effect on our business. We believe that there may be significant litigation in the industry regarding patent and other intellectual property rights. If we become involved in this litigation, it could consume a substantial portion of our managerial and financial resources.

*We may be subject to claims that we or our employees have wrongfully used or disclosed alleged trade secrets of their former employers.*

As is commonplace in our industry, we employ individuals who were previously employed at other biotechnology or pharmaceutical companies, including our potential competitors. Although no claims against us are currently pending, we may be subject to claims that these employees or we have inadvertently or otherwise used or disclosed trade secrets or other proprietary information of their former employers. Litigation may be necessary to defend against these claims. Even if we are successful in defending against these claims, litigation could result in substantial costs and be a distraction to management.

### **Risks Related to Our Common Stock**

*Our stock price is highly volatile, and our stock may lose all or a significant part of its value.*

The market prices for securities of biotechnology companies have been volatile. This volatility has significantly affected the market prices for these securities for reasons frequently unrelated to the operating performance of the specific companies. These broad market fluctuations may adversely affect the market price of our common stock. The market price for our common stock has fluctuated significantly since public trading commenced in October 1995, and it is likely that the market price will continue to fluctuate in the future. In the two years ended June 30, 2006, our stock price has ranged from \$12.11 per share to \$28.53 per share. In addition, the stock market has experienced extreme price and volume fluctuations. Events or factors that may have a significant impact on our business and on the market price of our common stock include the following:

results of our current Phase 3 clinical trials of Flurizan for the treatment of Alzheimer's disease and any additional Phase 3 trials that may be required by the FDA or that we may initiate on our own;

results of our current Phase 2b clinical trial of MPC-7869 for the treatment of prostate cancer and any additional trials that may be required by the FDA or that we may initiate on our own;

our entry into or the loss of a significant collaboration;

results of our current Phase 1 or any subsequent clinical trials for Azixa, MPC-2130, and MPC-0920;

results of clinical trials conducted by others on drugs that would compete with our drug candidates;

failure or delays in advancing drug candidates from our preclinical programs, or other drug candidates we may discover or acquire in the future, into clinical trials;

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failure or discontinuation of any of our research programs;

delays or other problems with manufacturing our drug candidates or approved products;

regulatory developments or enforcement in the U.S. and foreign countries;

developments or disputes concerning patents or other proprietary rights involving us directly or otherwise affecting the industry as a whole;

introduction of technological innovations or new commercial products by us or our competitors;

changes in estimates or recommendations by securities analysts relating to our common stock or the securities of our competitors;

failure to meet estimates or recommendations by securities analysts that cover our common stock;

**Table of Contents**

public concern over our drug candidates or any approved products;

litigation;

future sales or anticipated sales of our common stock by us or our stockholders;

general market conditions;

changes in the structure of health care payment systems;

failure to sustain revenue growth or margins in our predictive medicine business;

failure of any of our drug candidates, if approved, to achieve commercial success;

seasonal slowness in sales, particularly in the quarters ending September 30 and March 31, the effects of which may be difficult to understand during periods of growth;

economic, healthcare and biotechnology trends, disasters or crises and other external factors; and

period-to-period fluctuations in our financial results.

These and other external factors may cause the market price and demand for our common stock to fluctuate substantially, which may limit or prevent investors from readily selling their shares of common stock and may otherwise negatively affect the liquidity of our common stock. In addition, in the past, when the market price of a stock has been volatile, holders of that stock have instituted securities class action litigation against the company that issued the stock. If any of our stockholders brought a lawsuit against us, we could incur substantial costs defending the lawsuit regardless of the outcome. Such a lawsuit could also divert the time and attention of our management.

***Anti-takeover provisions of Delaware law, provisions in our charter and bylaws and our stockholders' rights plan, or poison pill, could make a third-party acquisition of us difficult.***

Because we are a Delaware corporation, the anti-takeover provisions of Delaware law could make it more difficult for a third party to acquire control of us, even if the change in control would be beneficial to stockholders. We are subject to the provisions of Section 203 of the General Corporation Law of Delaware, which prohibits us from engaging in certain business combinations, unless the business combination is approved in a prescribed manner. In addition, our restated certificate of incorporation and restated bylaws also contain certain provisions that may make a third-party acquisition of us difficult, including:

a classified board of directors, with three classes of directors each serving a staggered three-year term;

the ability of the board of directors to issue preferred stock;



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a 70% super-majority shareholder vote to amend our bylaws and certain provisions of our certificate of incorporation; and

the inability of our stockholders to call a special meeting or act by written consent.

We also have implemented a stockholders' rights plan, also called a poison pill, which could make it uneconomical for a third party to acquire our company on a hostile basis. These provisions, as well as Section 203, may discourage certain types of transactions in which our stockholders might otherwise receive a premium for their shares over then current market price, and may limit the ability of our stockholders to approve transactions that they think may be in their best interests.

### **Item 1B. UNRESOLVED STAFF COMMENTS**

Not applicable.

### **Item 2. PROPERTIES**

Our headquarters and facilities are located in Salt Lake City, Utah. We currently lease a 149,000 square foot building dedicated to research and development, administration and laboratory space that has received federal certification under CLIA. Activity related to our research, drug development and predictive medicine segments is performed at this location. The lease on our existing facility has a term of fifteen years, through August 2017, and provides for a renewal option for a term of up to ten additional years. We have also entered into a lease agreement for an additional 70,000 square foot building that is under construction adjacent to our primary facility. The lease on our facility under construction has a term of 15 years, from the date we occupy the facility, and provides for a renewal option for two additional periods of five years each.

**Table of Contents**

We believe that our existing facilities and equipment are well maintained and in good working condition. We believe our current facilities and those under construction will provide adequate capacity for at least the next two years. We continue to make investments in capital equipment as needed to meet the research requirements of our collaborative agreements, our drug development requirements, and the anticipated demand for our predictive medicine products.

**Item 3. LEGAL PROCEEDINGS**

We are not a party to any material legal proceedings.

**Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

No matters were submitted to a vote of our security holders during the fourth quarter of the year ended June 30, 2006.

**Table of Contents****PART II****Item 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES****Market Information**

Our Common Stock began trading on the NASDAQ National Market on October 6, 1995 under the symbol MYGN. Effective July 1, 2006, the NASDAQ National Market changed its name and split into two different tiers, the NASDAQ Global Market and the NASDAQ Global Select Market, and we were automatically transferred to the NASDAQ Global Select Market. The following table sets forth, for the last two fiscal years, the high and low sales prices for the Common Stock, as reported by the NASDAQ National Market (prior to July 1, 2006) and the NASDAQ Global Select market (since July 1, 2006), during the periods indicated:

	High	Low
<b>Fiscal Year Ended June 30, 2006:</b>		
Fourth Quarter	\$ 28.53	\$ 22.51
Third Quarter	\$ 28.09	\$ 19.84
Second Quarter	\$ 23.20	\$ 18.24
First Quarter	\$ 21.99	\$ 15.49
<b>Fiscal Year Ended June 30, 2005:</b>		
Fourth Quarter	\$ 18.62	\$ 15.06
Third Quarter	\$ 26.07	\$ 18.07
Second Quarter	\$ 24.30	\$ 16.35
First Quarter	\$ 18.30	\$ 12.11

**Stockholders**

As of September 1, 2006, there were approximately 168 stockholders of record of our Common Stock and, according to our estimates, approximately 9,805 beneficial owners of the Common Stock.

**Dividends**

We have not paid dividends to our stockholders since our inception and we do not plan to pay cash dividends in the foreseeable future. We currently intend to retain earnings, if any, to finance our growth.

**Unregistered Sales of Securities**

None.

**Issuer Purchases of Equity Securities**

None.

**Table of Contents**
**Item 6. SELECTED CONSOLIDATED FINANCIAL DATA**

The following table sets forth our selected consolidated financial data and has been derived from our audited consolidated financial statements. Consolidated balance sheets as June 30, 2006 and 2005, as well as consolidated statements of operations for the years ended June 30, 2006, 2005, and 2004 and the report thereon are included elsewhere in this Annual Report on Form 10-K. The information below should be read in conjunction with our audited consolidated financial statements (and notes thereon) and Management's Discussion and Analysis of Financial Condition and Results of Operations, included in Item 7.

<i>In thousands, except per share amounts</i>	<b>Years Ended June 30,</b>				
	<b>2006</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>	<b>2002</b>
<b>Consolidated Statement of Operations Data:</b>					
Predictive medicine revenue	\$ 100,621	\$ 71,325	\$ 43,294	\$ 34,683	\$ 26,821
Research revenue	13,658	11,081	11,748	27,822	27,015
Related party research revenue			1,606	1,816	
<b>Total research revenue</b>	<b>13,658</b>	<b>11,081</b>	<b>13,354</b>	<b>29,638</b>	<b>27,015</b>
Total revenues	114,279	82,406	56,648	64,321	53,836
<b>Costs and expenses:</b>					
Predictive medicine cost of revenue	27,644	20,322	13,751	12,553	10,717
Research and development expense	83,757	59,243	50,697	47,589	36,295
Selling, general and administrative expense	48,467	43,586	34,835	31,525	25,484
<b>Total costs and expenses</b>	<b>159,868</b>	<b>123,151</b>	<b>99,283</b>	<b>91,667</b>	<b>72,496</b>
Operating loss	(45,589)	(40,745)	(42,635)	(27,346)	(18,660)
<b>Other income (expense):</b>					
Interest income	7,412	2,798	2,025	2,900	5,385
Other	(12)	(2,031)	(10)	38	(214)
Loss before income taxes	(38,189)	(39,978)	(40,620)	(24,408)	(13,489)
Income taxes				417	500
Net loss	\$ (38,189)	\$ (39,978)	\$ (40,620)	\$ (24,825)	\$ (13,989)
Basic and diluted net loss per share	\$ (1.05)	\$ (1.30)	\$ (1.49)	\$ (0.96)	\$ (0.59)
Basic and diluted weighted average shares outstanding	36,278	30,720	27,326	25,730	23,660
	<b>As of June 30,</b>				
	<b>2006</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>	<b>2002</b>
<b>Consolidated Balance Sheet Data:</b>					
Cash, cash equivalents and marketable investment securities	\$ 227,744	\$ 113,843	\$ 141,839	\$ 126,292	\$ 124,243
Working capital	225,465	112,270	148,586	137,003	108,002
Total assets	276,603	158,958	188,356	182,823	157,390
Stockholders' equity	249,781	135,673	173,276	163,486	128,869

**Table of Contents****Quarterly Financial Data (Unaudited)**

<i>In thousands, except per share amounts</i>	Quarters Ended			
	June 30, 2006	March 31, 2006	December 31, 2005	September 30, 2005
<b>Consolidated Statement of Operations Data:</b>				
Predictive medicine revenue	\$ 28,833	\$ 26,867	\$ 23,392	\$ 21,529
Research revenue	3,192	2,942	3,938	3,585
Total revenue	32,025	29,809	27,330	25,114
Costs and expenses:				
Predictive medicine cost of revenue	8,064	7,505	6,272	5,803
Research and development expense	24,294	21,967	19,030	18,466
Selling, general and administrative expense	13,649	12,291	11,628	10,898
Total costs and expenses	46,007	41,763	36,930	35,167
Operating loss	(13,982)	(11,954)	(9,600)	(10,053)
Other income (expense):				
Interest income	2,545	2,407	1,649	811
Other	13	(24)	(1)	
	2,558	2,383	1,648	811
Net loss	\$ (11,424)	\$ (9,571)	\$ (7,952)	\$ (9,242)
Basic and diluted net loss per share	\$ (0.29)	\$ (0.24)	\$ (0.22)	\$ (0.30)
Basic and diluted weighted average shares outstanding	39,547	39,232	35,547	30,866

<i>In thousands, except per share amounts</i>	Quarters Ended			
	June 30, 2005	March 31, 2005	December 31, 2004	September 30, 2004
<b>Consolidated Statement of Operations Data:</b>				
Predictive medicine revenue	\$ 20,975	\$ 18,386	\$ 17,535	\$ 14,429
Research revenue	5,121	1,575	2,104	2,281
Total revenue	26,096	19,961	19,639	16,710
Costs and expenses:				
Predictive medicine cost of revenue	5,655	5,297	5,131	4,239
Research and development expense	16,025	15,540	14,546	13,132
Selling, general and administrative expense	13,158	9,834	10,638	9,956
Total costs and expenses	34,838	30,671	30,315	27,327
Operating loss	(8,742)	(10,710)	(10,676)	(10,617)
Other income (expense):				
Interest income	755	724	687	632

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Other	(1,965)		(59)	(7)
	(1,210)	724	628	625
Net loss	\$ (9,952)	\$ (9,986)	\$ (10,048)	\$ (9,992)
Basic and diluted net loss per share	\$ (0.32)	\$ (0.32)	\$ (0.33)	\$ (0.33)
Basic and diluted weighted average shares outstanding	30,800	30,749	30,682	30,649

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## **Table of Contents**

### **Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

#### **Overview**

We are a leading biotechnology company focused on the development and marketing of novel therapeutic and molecular diagnostic 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 and progression of disease. We use this information to guide the development of new healthcare products that will treat major diseases and assess a person's risk of disease later in life.

We have devoted substantially all of our resources to undertaking our drug discovery and development programs, operating our predictive medicine business, and continuing our research and development efforts. We have three reportable operating segments: (1) research, (2) predictive medicine, and (3) drug development. See Note 8 Segment and Related Information in the notes to our consolidated financial statements for information regarding these operating segments. Our revenues have consisted primarily of sales of predictive medicine products and research payments. We have yet to attain profitability and, for year ended June 30, 2006, we had a net loss of \$38.2 million. As of June 30, 2006 we had an accumulated deficit of \$217.4 million.

We expect to incur losses for at least the next several years, primarily due to the expansion of our drug discovery and development efforts, the initiation and continuation of human clinical trials, the launch of new molecular diagnostic products, the performance of our internal research and development programs, and expansion of our facilities. We incurred research and development expenses of \$83.8 million, \$59.2 million, and \$50.7 million for the years ended June 30, 2006, 2005, and 2004 respectively. Additionally, we expect to incur substantial sales, marketing and other expenses in connection with building our pharmaceutical and predictive medicine businesses. We expect that losses will fluctuate from quarter to quarter and that such fluctuations may be substantial.

#### **Critical Accounting Policies**

Critical accounting policies are those policies which are both important to the portrayal 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; and

share-based payment expense.

*Revenue Recognition.* Predictive medicine revenues include revenues from the sale of predictive medicine products, forensic DNA analysis fees, and related marketing agreements. Predictive medicine revenue is recognized upon completion of the test or analysis and communication of results and when collectibility is reasonably assured. Up-front payments related to marketing agreements are deferred and recognized ratably over the life of the agreement.

Research revenues include revenues from research agreements, milestone payments, and technology licensing agreements. In applying the principles of SAB 104 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, on a basis of costs incurred relative to the total estimated contract costs (cost-to-cost method), or on the basis of contractually defined output measures such as units delivered. We make adjustments, if necessary, to the estimates used in our cost-to-cost calculations as work progresses and we gain experience. 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. Actual results may vary from our estimates. 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. We recognize revenue from milestone payments as agreed-upon events representing the achievement of substantive steps in the development process are achieved and where the





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## **Table of Contents**

amount of the milestone payments approximates the value of achieving the milestone. 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.

*Allowance for Doubtful Accounts.* The preparation of our financial statements in accordance with U.S. generally accepted accounting principles 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 predictive medicine products. We analyze trade accounts receivable and consider historic experience, customer creditworthiness, facts and circumstances specific to outstanding balances, and payment term changes when evaluating the adequacy of the allowance for doubtful accounts. Changes in these factors could result in material adjustments to the expense recognized for bad debt.

*Share-Based Payment Expense.* Financial Accounting Standards Board Statement No. 123R, *Share-Based Payment* (Statement 123R) and Staff Accounting Bulletin No. 107 set 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.

### **Recent Accounting Pronouncements**

In May 2005, the Financial Accounting Standards Board Statement issued SFAS No. 154, *Accounting Changes and Error Corrections* a replacement of APB Opinion No. 20 and FASB Statement No. 3. SFAS No. 154 requires retrospective application to prior periods financial statements for changes in accounting principle, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. SFAS No. 154 also requires that retrospective application of a change in accounting principle be limited to the direct effects of the change. Indirect effects of a change in accounting principle should be recognized in the period of the accounting change. SFAS No. 154 also requires that a change in depreciation, amortization, or depletion method for long-lived non-financial assets be accounted for as a change in accounting estimate affected by a change in accounting principle. SFAS No. 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. Our adoption of SFAS No. 154 is not expected to have a material effect on our consolidated financial position or results of operations.

In July 2006, the FASB issued FASB Interpretation ( FIN ) No. 48 ( FIN 48 ) *Accounting for Income Tax Uncertainties*. FIN 48 defines the threshold for recognizing the benefits of tax return positions in the financial statements as more-likely-than-not to be sustained by the taxing authority. FIN 48 provides guidance on the de-recognition, measurement and classification of income tax uncertainties, along with any related interest and penalties. FIN 48 also includes guidance concerning accounting for income tax uncertainties in interim periods and increases the level of disclosures associated with any recorded income tax uncertainties. FIN 48 is effective for fiscal years beginning after December 15, 2006. Our adoption of FIN 48 is not expected to have a material effect on our consolidated financial position or results of operations.

In June 2006, the Emerging Issues Task Force ( EITF ) reached a consensus on EITF Issue No. 06-03 ( EITF 06-03 ), *How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (That Is, Gross versus Net Presentation)*. EITF 06-03 provides that the presentation of taxes assessed by a governmental authority that is directly imposed on a revenue-producing transaction between a seller and a customer on either a gross basis (included in revenues and costs) or on a net basis (excluded from revenues) is an accounting policy decision that should be disclosed. The provisions of EITF 06-03 become effective as of December 31, 2006. Our adoption of EITF 06-03 is not expected to have a material effect on our consolidated financial position or results of operations.

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## **Table of Contents**

### **Results of Operations**

#### *Years ended June 30, 2006 and 2005*

Predictive medicine revenue is comprised primarily of sales of predictive medicine products, and also includes some marketing fees and forensic DNA analysis fees. Predictive medicine revenues for the fiscal year ended June 30, 2006 were \$100.6 million compared to \$71.3 million for the prior fiscal year, an increase of 41%. Increased sales, marketing, and education efforts resulted in wider acceptance of our products by the medical community and increased revenues for the fiscal year ended June 30, 2006. There can be no assurance that predictive medicine revenues will continue to increase at historical rates.

Research revenue is comprised of research payments received pursuant to collaborative agreements and amortization of upfront technology license fees. Research revenue for the fiscal year ended June 30, 2006 was \$13.7 million compared to \$11.1 million for the prior fiscal year. This 23% increase in research revenue is primarily attributable to revenues associated with the delivery of research data pursuant to one research collaboration. We expect that our continued focus will be on our internal drug development and predictive medicine programs and we plan to continue to de-emphasize external research collaborations. Research revenue from our research collaboration agreements is recognized using a proportional performance methodology. Consequently, as these programs progress and costs increase or decrease, research revenue may increase or decrease proportionately.

Predictive medicine cost of revenue is comprised primarily of salaries and related personnel costs, laboratory supplies, royalty payments, equipments costs and facilities expense. Predictive medicine cost of revenue for the fiscal year ended June 30, 2006 was \$27.6 million compared to \$20.3 million for the prior fiscal year. This increase of 36% in predictive medicine cost of revenue is primarily due to the 41% increase in predictive medicine revenues for the fiscal year ended June 30, 2006 compared to the prior fiscal year. Our gross profit margin was 73% for the fiscal year ended June 30, 2006 compared to 72% for the prior fiscal year. There can be no assurance that predictive medicine gross profit margins will increase and we expect that our gross profit margins will fluctuate based on the introduction of new technology and operating systems in our predictive medicine laboratory.

Research and development expenses are comprised primarily of salaries and related personnel costs, laboratory supplies, equipments costs, facilities expense, and costs associated with our clinical trials. Research and development expenses for the fiscal year ended June 30, 2006 were \$83.8 million compared to \$59.2 million for the prior fiscal year. This increase of 41% was primarily due to increased costs associated with our ongoing clinical trials of Flurizan, MPC-7869, Azixa, MPC-2130, and MPC-0920, which added approximately \$15.7 million to our research and development costs for the fiscal year ended June 30, 2006 compared to the prior fiscal year. Increased costs associated with our drug discovery programs, drug development programs, and our research collaborations added approximately \$8.9 million to our research and development costs for the fiscal year ended June 30, 2006 compared to the prior fiscal year. We expect to incur significant increases in our research and development expenses over the next several years as we expand clinical trials for our product candidates currently in clinical development, including Flurizan and Azixa, advance our other product candidates into clinical trials, and expand our research and development activities. We expect that these expenses will continue to fluctuate from quarter to quarter based on changes in our research programs and the progression of our drug development programs.

Selling, general and administrative expenses consist primarily of salaries, commissions and related personnel costs for sales, marketing, customer service, executive, legal, finance, accounting, human resources, and business development, allocated facilities expenses and other corporate expenses. Selling, general and administrative expenses for the fiscal year ended June 30, 2006 were \$48.5 million compared to \$43.6 million for the prior fiscal year. This increase of 11% was primarily attributable to general increases in costs to support the 41% growth in our predictive medicine business and our therapeutic development efforts. We expect our selling, general and administrative expenses will continue to fluctuate depending on the number and scope of new product launches and our drug discovery and drug development efforts.

Interest income for the fiscal year ended June 30, 2006 was \$7.4 million compared to \$2.8 million for the prior fiscal year, an increase of 165%. This increase was the result of increases in interest rates as well as increases in our cash, cash equivalents, and marketable investment securities, primarily due to the public offering of \$139.7 million (net proceeds) of our common stock in November 2005.

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**Table of Contents**

Other expense for the fiscal year ended June 30, 2006 was \$12,000 compared to \$2.0 million in the prior fiscal year. Other expense generally consists of losses realized from the disposition of equipment. For the fiscal year ended June 30, 2005 other expense also included a \$2.0 million impairment charge related to our investment in a privately-held pharmaceutical company. The impairment charge, as determined by our cash flow estimates and an independent, third-party appraisal, resulted from a change in the timing of anticipated future cash flows from the investment.

*Years ended June 30, 2005 and 2004*

Predictive medicine revenues for the fiscal year ended June 30, 2005 were \$71.3 million compared to \$43.3 million for the prior fiscal year, an increase of 65%. Increased sales and marketing efforts, coupled with recent publications concerning the clinical utility of our products, have resulted in wider acceptance of our products by the medical community and increased revenues for the fiscal year ended June 30, 2005. There can be no assurance that predictive medicine revenues will continue to increase at historical rates.

Total research revenue for the fiscal year ended June 30, 2005 was \$11.1 million compared to \$13.4 million for the prior fiscal year. Related party research revenue included in total research revenues for the fiscal year ended June 30, 2005 and 2004 was \$0 and \$1.6 million, respectively. Related party research revenue is comprised of certain research services performed for Prolexys Pharmaceuticals, Inc., which was 49% owned by us at June 30, 2005. The agreement to provide these research services was terminated effective January 26, 2004. The 17% decrease in total research revenue is primarily attributable to the successful completion of two of our research collaborations with corporate partners. Research revenue from our research collaboration agreements is recognized using a proportional performance methodology. Consequently, as these programs progress and costs increase or decrease, research revenue may increase or decrease proportionately.

Predictive medicine cost of revenue for the fiscal year ended June 30, 2005 was \$20.3 million compared to \$13.8 million for the prior fiscal year. This increase of 48% in predictive medicine cost of revenue is primarily due to the 65% increase in predictive medicine revenues for the fiscal year ended June 30, 2005 compared to the prior fiscal year. This increase was partially offset by technology improvements and efficiency gains in the operation of our predictive medicine business, which contributed to an increase in our gross profit margin from 68% for the fiscal year ended June 30, 2004 to 72% for the fiscal year ended June 30, 2005. There can be no assurance that predictive medicine gross profit margins will continue to increase at historical rates.

Research and development expenses for the fiscal year ended June 30, 2005 were \$59.2 million compared to \$50.7 million for the prior fiscal year. This increase of 17% was primarily due to increased costs associated with our ongoing clinical trials in Alzheimer's disease and cancer, increases in our other drug discovery and drug development programs, and the initiation of a new research collaboration. These increases added approximately \$15.7 million to our research and development expenses for the fiscal year ended June 30, 2005 compared to the prior fiscal year. These increases were partially offset by the completion of two of our research collaborations and a prior year settlement of claims resulting from a dispute with a third party, which resulted in decreased research and development expenses of approximately \$7.2 million for the fiscal year ended June 30, 2005 compared to the prior fiscal year. We expect our research and development expenses to continue to fluctuate based on changes in our research programs and the progression of our drug development programs.

Selling, general and administrative expenses for the fiscal year ended June 30, 2005 were \$43.6 million compared to \$34.8 million for the prior fiscal year. This increase of 25% was primarily attributable to sales and marketing commissions and expenses incurred to support the 65% growth in our predictive medicine business, which resulted in an increase of \$7.4 million compared to the prior fiscal year. General increases in costs to support growth in our predictive medicine business and therapeutic development efforts resulted in an increase of approximately \$1.4 million to our selling, general, and administrative expense for the fiscal year ended June 30, 2005 compared to the prior fiscal year. We expect our selling, general and administrative expenses will continue to fluctuate depending on the number and scope of new product launches and our drug discovery and drug development efforts.

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## **Table of Contents**

Interest income for the fiscal year ended June 30, 2005 was \$2.8 million compared to \$2.0 million for the prior fiscal year. This increase in interest income of 40% is primarily attributable to increases in interest rates and increases in our cash, cash equivalents, and marketable investment securities.

Other expense for the fiscal year ended June 30, 2005 was \$2.0 million compared to \$10,000 in the prior fiscal year. Other expense generally consists of losses realized from the disposition of fixed assets. For the fiscal year ended June 30, 2005 other expense also included a \$2.0 million impairment charge related to our investment in a privately-held pharmaceutical company. The impairment charge, as determined by our cash flow estimates and an independent, third-party appraisal, resulted from a change in the timing of anticipated future cash flows from the investment.

## **Liquidity and Capital Resources**

Cash, cash equivalents, and marketable investment securities increased \$113.9 million or 100% from \$113.8 million at June 30, 2005 to \$227.7 million at June 30, 2006. This increase is primarily attributable to the public offering of \$139.7 million (net proceeds) of our common stock in November 2005. This increase was partially offset by expenditures for our ongoing clinical trials, internal research and drug development programs and other expenditures incurred in the ordinary course of business.

Net cash used in operating activities was \$28.0 million during the fiscal year ended June 30, 2006 compared to \$23.3 million used in operating activities during the prior fiscal year. Prepaid expenses decreased by \$1.0 million between June 30, 2005 and June 30, 2006, primarily due to the usage of lab supplies previously purchased at a discount. Trade receivables increased \$5.7 million between June 30, 2005 and June 30, 2006, primarily due to the 41% increase in predictive medicine sales during the same period. Accrued liabilities increased by \$3.9 million between June 30, 2005 and June 30, 2006, primarily as a result of amounts accrued related to our clinical trials of Flurizan.

Our investing activities used cash of \$72.8 million during the fiscal year ended June 30, 2006 and provided cash of \$19.5 million during the prior fiscal year. For the fiscal year ended June 30, 2006 purchases of marketable investment securities used cash of \$159.9 million, maturities of marketable investment securities provided cash of \$94.8 million, and capital expenditures for research equipment used cash of \$7.7 million.

Financing activities provided cash of \$149.9 million during the fiscal year ended June 30, 2006 and provided cash of \$2.5 million in the prior fiscal year. In November 2005 we received \$139.7 million in net proceeds from an underwritten offering of 8.1 million shares of our common stock pursuant to our outstanding shelf registration statement on Form S-3 (Registration No. 333-123914). Following the offering we have approximately \$151.1 million of securities available for sale under this shelf registration statement. During the fiscal year ended June 30, 2006 we received \$10.2 million from the exercise of stock options and the purchase of our common stock from our Employee Stock Purchase Plan.

We believe that with our existing capital resources, 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 two current Phase 3 clinical trials of Flurizan for the treatment of Alzheimer's disease and any additional trials that may be required by the FDA or that we may initiate on our own;

the progress and results of our current Phase 2b clinical trial of MPC-7869 for the treatment of prostate cancer and any additional trials that may be required by the FDA or that we may initiate on our own;

the progress and results of our Phase 1 clinical trials for Azixa, MPC-2130, and MPC-0920 and any future trials we may initiate based on the Phase 1 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;



**Table of Contents**

the costs, timing and outcome of regulatory review of Flurizan, Azixa, MPC-2130, MPC-0920, and any other preclinical drug candidates that progress to clinical trials;

the costs of establishing sales and marketing functions and of establishing 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 progress, results and cost of developing personalized medicine products and additional predictive medicine products;

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

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

the costs to satisfy our obligations under potential future collaborations; and

the timing, receipt and amount of sales or royalties, if any, from Flurizan, MPC-7869, Azixa, MPC-2130, MPC-0920, and any other drug candidates.

**Off-Balance Sheet Arrangements**

None.

**Contractual Obligations**

The following table represents our consolidated contractual obligations as of June 30, 2006 (in thousands):

		Less than			More than
	Total	one year	1-3 Years	4-5 Years	5 years
Operating leases	\$ 66,566	5,128	11,367	10,230	39,841
Purchase obligations	\$ 1,755	1,755			
Contractual services	\$ 71,105	36,915	34,190		
Total	\$ 139,426	43,798	45,557	10,230	39,841

Contractual services represent financial commitments for drug development and clinical trial activities that can be terminated at our request. The expected timing of payment for the obligations listed above is estimated based on current information. Actual payment timing and amounts may differ depending on the timing of goods or services received or other changes.

**Effects of Inflation**

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

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

The Securities and Exchange Commission encourages companies to disclose forward-looking information so that investors can better understand a company's future prospects and make informed investment decisions. This Annual Report 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 connection with any discussion of future operating or financial performance, identify forward-looking statements. All forward-looking statements are management's present expectations of future events and are subject to a number of risks and uncertainties that could cause actual results to differ materially and adversely from those described in the forward-looking statements. These risks include, but are not limited to: our inability to further identify, develop and achieve commercial success for new products and technologies; our ability to discover drugs that are safer and more efficacious than our competitors; our ability to develop predictive medicine 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

**Table of Contents**

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, or that clinical trials will 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; our ability to protect our proprietary technologies; patent-infringement claims; risks of new, changing and competitive technologies and regulations in the United States and internationally; and other factors discussed under the heading "Risk Factors" contained in Item 1A of this Annual Report.

In light of these assumptions, risks and uncertainties, the results and events discussed in the forward-looking statements contained in this Annual Report or in any document incorporated by reference might not occur. Stockholders are cautioned not to place undue reliance on the forward-looking statements, which speak only as of the date of this Annual 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 the Company or to any person acting on its behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this section.

**Item 7A. 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. 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.

The securities held in our investment portfolio are 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 June 30, 2006, 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 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA****MYRIAD GENETICS, INC.**

<u>Index to Financial Statements</u>	<b>Number</b>
<u>Reports of Independent Registered Public Accounting Firm</u>	F-1
<u>Consolidated Balance Sheets as of June 30, 2006 and 2005</u>	F-3
<u>Consolidated Statements of Operations for the Years Ended June 30, 2006, 2005 and 2004</u>	F-4
<u>Consolidated Statements of Stockholders' Equity and Comprehensive Loss for the Years Ended June 30, 2006, 2005 and 2004</u>	F-5
<u>Consolidated Statements of Cash Flows for the Years Ended June 30, 2006, 2005 and 2004</u>	F-6
<u>Notes to Consolidated Financial Statements</u>	F-7

**Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

Not applicable.



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**Table of Contents**

**Item 9A. CONTROLS AND PROCEDURES**

**1. Disclosure Controls and Procedures**

We maintain disclosure controls and procedures (Disclosure Controls) within the meaning of Rule 13a-15(e) of the Securities Exchange Act of 1934, as amended, or the Exchange Act. Our Disclosure Controls are designed to ensure that information required to be disclosed by the Company in the reports filed under the Exchange Act, such as this Annual Report on Form 10-K, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. Our Disclosure Controls are also designed to ensure that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating our Disclosure Controls, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily applied its judgment in evaluating and implementing possible controls and procedures.

As of the end of the period covered by this Annual Report on Form 10-K, we evaluated the effectiveness of the design and operation of the Company's Disclosure Controls, which was done under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer. Based on the evaluation of our Disclosure Controls, our Chief Executive Officer and Chief Financial Officer have concluded that, as of June 30, 2006, our Disclosure Controls were effective to ensure that information required to be disclosed by us in the reports we file or submit under the Exchange Act is made known to management, including our Chief Executive Officer and Chief Financial Officer, and that such information is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

**2. Internal Control Over Financial Reporting**

**a. Management's Report on Internal Control over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is defined in Rule 13a-15(f) and 15d-15(f) promulgated under the Exchange Act as a process designed by, or under the supervision of, a company's principal executive and principal financial officers and effected by the Company's board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that:

pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company;

provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and

provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

**Table of Contents**

Our management assessed the effectiveness of our internal control over financial reporting as of June 30, 2006. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control Integrated Framework*. Based on our assessment, management believes that, as of June 30, 2006, our internal control over financial reporting is effective based on those criteria.

Our independent registered public accounting firm, KPMG LLP, has issued an audit report on management's assessment of the effectiveness of our internal control over financial reporting, which is included in our Annual Report on Form 10-K on page F-2 of our consolidated financial statements.

**b. Attestation Report of the Registered Public Accounting Firm**

See page F-2 of our consolidated financial statements.

**c. Change in Internal Control over Financial Reporting**

No change in our internal control over financial reporting occurred during our most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**Item 9B. OTHER INFORMATION**

None.

**Table of Contents**

**PART III**

**Item 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT**

The response to this item is incorporated by reference from the discussion responsive thereto under the captions Management, Section 16(a) Beneficial Ownership Reporting Compliance and Corporate Code of Conduct and Ethics in our Proxy Statement for the 2006 Annual Meeting of Stockholders to be held on November 16, 2006.

**Item 11. EXECUTIVE COMPENSATION**

The response to this item is incorporated by reference from the discussion responsive thereto under the captions Executive Compensation, Management-Committees of the Board of Directors and Meetings-Compensation Committee Interlocks and Insider Participation, and Management-Compensation of Directors in our Proxy Statement for the 2006 Annual Meeting of Stockholders to be held on November 16, 2006.

**Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

The response to this item is incorporated by reference from the discussion responsive thereto under the captions Security Ownership of Certain Beneficial Owners and Management and Executive Compensation-Equity Compensation Plan Information in our Proxy Statement for the 2006 Annual Meeting of Stockholders to be held on November 16, 2006.

**Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS**

The response to this item is incorporated by reference from the discussion responsive thereto under the caption Certain Relationships and Related Transactions in our Proxy Statement for the 2006 Annual Meeting of Stockholders to be held on November 16, 2006.

**Item 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

The response to this item is incorporated by reference from the discussion responsive thereto in the proposal entitled Independent Public Accountants (Notice Item 4) in our Proxy Statement for the 2006 Annual Meeting of the Stockholders to be held on November 16, 2006.

**Table of Contents**

**PART IV**

**Item 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES**

**Item 15(a).** The following documents are filed as part of this Annual Report on Form 10-K.

**Item 15(a)(1) and (2).** See Index to Consolidated Financial Statements and Financial Statement Schedules at

Item 8 to this Annual Report on Form 10-K. Other financial statement schedules have not been included because they are not applicable or the information is included in the financial statements or notes thereto.

**Item 15(a)(3).** Exhibits

The following is a list of exhibits filed as part of this Annual Report on Form 10-K.

**Exhibit**

<b>Number</b>	<b>Description</b>
(3.1 (a))i	Restated Certificate of Incorporation of the Registrant (Filed as Exhibit 3.1 (a))
(3.1 (b))i	Certificate of Amendment of Restated Certificate of Incorporation (Filed as Exhibit 3.1 (b))
(3.1 (c))i	Certificate of Designations of Series A Junior Participating Preferred Stock (Filed as Exhibit 3.1 (c))
(3.2)p	Restated By-Laws of the Registrant (Filed as Exhibit 3.2)
(4.1)	See Exhibits 3.1(a), 3.1(b), 3.1(c) and 3.2
(4.2)h	Form of Common Stock Certificate (Filed as Exhibit 4.2)
(4.3)n	Rights Agreement dated as of July 17, 2001, between the Registrant and Mellon Investor Services, LLC (filed as Exhibit 4.1)
(4.4)h	Agreement of Substitution and Amendment of Common Shares Rights Agreement by and between the Registrant and American Stock Transfer and Trust Company dated August 16, 2002 (Filed as Exhibit 4.4)
(10.1)\$h	2002 Amended and Restated Employee, Director and Consultant Stock Option Plan (Filed as Exhibit 10.1)
(10.2)\$t	2003 Employee, Director and Consultant Stock Option Plan, as amended (Filed as Exhibit 99.1)
(10.3)*\$r	Employee Stock Purchase Plan, as amended (Filed as Exhibit 99.2)
(10.4) *\$	Employment Agreement between Myriad Genetics, Inc., Myriad Genetic Laboratories, Inc. and Peter D. Meldrum, dated May 15, 1993 (Filed as Exhibit 10.3)
(10.5) *\$	Employment Agreement between Myriad Genetics, Inc., Myriad Genetic Laboratories, Inc. and Mark H. Skolnick, Ph.D., dated January 1, 1994 (Filed as Exhibit 10.4)
(10.6) *\$	Employment Agreement between Myriad Genetics, Inc., Myriad Genetic Laboratories, Inc. and Jay M. Moyes, dated July 12, 1993 (Filed as Exhibit 10.5)
(10.7) k\$	Employment Agreement between Myriad Genetics, Inc., Myriad Genetic Laboratories, Inc. and Gregory C. Critchfield, M.D., dated September 14, 1998 (Filed as Exhibit 10.7)
(10.8) k\$	Employment Agreement between Myriad Genetics, Inc., Myriad Pharmaceuticals, Inc. and Adrian N. Hobden, Ph.D., dated September 30, 1998 (Filed as Exhibit 10.8)
(10.9)#	Exclusive License Agreement between the Registrant and the University of Utah Research Foundation, dated October 8, 1991, as amended (Breast Cancer BRCA1) (Filed as Exhibit 10.13)
(10.10)#	Exclusive License Agreement between the Registrant and the University of Utah Research Foundation, dated June 21, 1994 (MTS1 or p16) (Filed as Exhibit 10.16)
(10.11)#	Exclusive License Agreement between the Registrant and the University of Utah Research Foundation, dated November 23, 1994 (Breast Cancer BRCA2) (Filed as Exhibit 10.17)

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- (10.12)! Lease Agreement, dated October 12, 1995, between the Boyer Research Park Associates V, by its general partner, the Boyer Company and the Registrant (Filed as Exhibit 10.2)
- (10.13)! Amendment to Lease Agreement, dated March 29, 1996 between the Boyer Research Park Associates V, by its general partner, the Boyer Company and the Registrant (Filed as Exhibit 10.3)
- (10.14)k Lease Agreement-Research Park Building Phase II, dated March 6, 1998, between the Research Park Associated VI, by its general partner, the Boyer Company, L.C. and the Registrant (Filed as Exhibit 10.44)

41

**Table of Contents**

(10.15)& Memorandum of Lease between the Company and Boyer Foothill Associates, Ltd. dated August 24, 1998 (Filed as Exhibit 10.1)

(10.16)& Memorandum of Lease between the Company and Boyer Research Park Associates VI, L.C. dated August 24, 1998 (Filed as Exhibit 10.2)

(10.17)& Subordination Agreement and Estoppel, Attornment and Non-Disturbance Agreement (Lease to Deed of Trust) between the Company and Wells Fargo Bank, National Association dated June 24, 1998 (Filed as Exhibit 10.3)

(10.18)e Lease Agreement, dated March 31, 2001 between the Registrant and Boyer Research Park Associates VI, by its general partner, The Boyer Company, L.C. (Filed as Exhibit 10.1)

(10.19)e Agreement, dated March 31, 2001, between the Registrant and Boyer Research Park Associates VI, by its general partner, The Boyer Company, L.C. (Filed as Exhibit 10.2)

(10.20)e@ License Agreement, dated December 7, 2000, between the Registrant and Encore Pharmaceuticals, Inc. (Filed as Exhibit 10.3)

(10.21)\$m Form of Executive Retention Agreement (Filed as Exhibit 10.1)

(10.22)l Lease Agreement, dated June 29, 2005 between the Registrant and Boyer Research Park Associates VIII, by its general partner, The Boyer Company, L.C.

(10.23)l Letter of Understanding regarding Lease Agreement, dated June 29, 2005 between the Registrant and Boyer Research Park Associates VIII, by its general partner, The Boyer Company, L.C.

(10.24)\$s Summary of compensation arrangements applicable to the Registrant's Named Executive Officers (FY 2005 Bonus and FY 2006 Salary) (Filed as Exhibit 10.1)

(10.25)\$u Summary of compensation arrangements applicable to the Registrant's Named Executive Officers (FY 2006 Bonus and FY 2007 Salary) (Filed as Exhibit 10.1)

(21.1) List of Subsidiaries of the Registrant

(23.1) Consent of KPMG LLP

(31.1) Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

(31.2) Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

(32) Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

- @ Confidential Treatment has been granted by the Commission as to certain portions.
- \$ Management contract or compensatory plan or arrangement.
- \* Previously filed with the Commission as Exhibits to, and incorporated herein by reference from, the Company's Registration Statement filed on Form S-1, File No. 33-95970.
- # Previously filed with the Commission as Exhibits to, and incorporated herein by reference from, the Company's Registration Statement filed on Form S-1, File No. 33-95970, and for which Confidential Treatment has been granted by the Commission as to certain portions.
- p Previously filed and incorporated herein by reference from the Form 10-Q for the period ending September 30, 1995, File No. 0-26642.
- ! Previously filed and incorporated herein by reference from the Form 10-Q for the period ending September 30, 1996, File No. 0-26642.
- q Previously filed and incorporated herein by reference from the Form 10-Q for the period ending December 31, 1996, File No. 0-26642.
- k Previously filed and incorporated herein by reference from the Form 10-K for the period ending June 30, 1998, File No. 0-26642.
- & Previously filed and incorporated herein by reference from the Form 10-Q for the period ending September 30, 1998, File No. 0-26642.

**Table of Contents**

- e Previously filed and incorporated herein by reference from the Form 10-Q for the period ending March 31, 2001, File No. 0-26642.
- h Previously filed and incorporated herein by reference from the Form 10-K for the period ending June 30, 2002, File No. 0-26642.
- i Previously filed and incorporated herein by reference from the Form 10-K for the period ending June 30, 2001, File No. 0-26642.
- j Previously filed and incorporated herein by reference from the Form 10-Q for the period ending December 31, 2003, File No. 0-26642.
- k Previously filed and incorporated herein by reference from the Form 10-K for the period ending June 30, 2004, File No. 0-26642.
- l Previously filed and incorporated herein by reference from the Form 8-K filed on July 5, 2005, File No. 0-26642.
- m Previously filed and incorporated herein by reference from the Form 10-Q for the period ending March 31, 2005, File No. 0-26642.
- n Previously filed and incorporated herein by reference from the Form 8-K filed on July 18, 2001, File No. 0-26642.
- r Previously filed and incorporated herein by reference from the Form 8-K filed on November 12, 2004, File No. 0-26642.
- s Previously filed and incorporated herein by reference from the Form 8-K filed on June 8, 2005, File No. 0-26642.
- t Previously filed and incorporated herein by reference from the Form 8-K filed on January 9, 2006, File No. 0-26642.
- u Previously filed and incorporated herein by reference from the Form 8-K filed on June 21, 2006, File No. 0-26642.

Where a document is incorporated by reference from a previous filing, the Exhibit number of the document in that previous filing is indicated in parentheses after the description of such document.

**Table of Contents****SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) 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, on September 6, 2006.

**MYRIAD GENETICS, INC.**

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

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated below and on the dates indicated.

<b>Signatures</b>	<b>Title</b>	<b>Date</b>
By: /s/ Peter D. Meldrum  <b>Peter D. Meldrum</b>	President, Chief Executive Officer and Director (principal executive officer)	September 6, 2006
By: /s/ Jay M. Moyes  <b>Jay M. Moyes</b>	Chief Financial Officer (principal financial and accounting officer)	September 6, 2006
By: /s/ John T. Henderson  <b>John T. Henderson, M.D.</b>	Chairman of the Board	September 6, 2006
By: /s/ Walter Gilbert  <b>Walter Gilbert, Ph.D.</b>	Vice Chairman of the Board	September 6, 2006
By: /s/ Mark H. Skolnick  <b>Mark H. Skolnick, Ph.D.</b>	Chief Scientific Officer and Director	September 6, 2006
By: /s/ Arthur H. Hayes, Jr.  <b>Arthur H. Hayes, Jr., M.D.</b>	Director	September 6, 2006
By: /s/ Linda S. Wilson  <b>Linda S. Wilson, Ph.D.</b>	Director	September 6, 2006
By: /s/ Robert S. Attiyeh  <b>Robert S. Attiyeh</b>	Director	September 6, 2006
By: /s/ Dennis Langer  <b>Dennis Langer, M.D., J.D.</b>	Director	September 6, 2006





**Table of Contents**

**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Stockholders

Myriad Genetics, Inc.:

We have audited the accompanying consolidated balance sheets of Myriad Genetics, Inc. and subsidiaries as of June 30, 2006 and 2005, and the related consolidated statements of operations, stockholders' equity and comprehensive loss, and cash flows for each of the years in the three-year period ended June 30, 2006. In connection with our audits of the consolidated financial statements, we have also audited the accompanying consolidated financial statement schedule. These consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Myriad Genetics, Inc. and subsidiaries as of June 30, 2006 and 2005, and the results of their operations and their cash flows for each of the years in the three-year period ended June 30, 2006, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the related financial statement schedule, when considered in relation to the consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Myriad Genetics, Inc.'s internal control over financial reporting as of June 30, 2006, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated September 6, 2006 expressed an unqualified opinion on management's assessment of, and the effective operation of, internal control over financial reporting.

KPMG LLP

Salt Lake City, Utah

September 6, 2006

F-1

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**Table of Contents**

**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Stockholders

Myriad Genetics, Inc.:

We have audited management's assessment, included in the accompanying Management's Report on Internal Control over Financial Reporting, that Myriad Genetics, Inc. (Myriad Genetics) maintained effective internal control over financial reporting as of June 30, 2006, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Myriad Genetics' management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that Myriad Genetics maintained effective internal control over financial reporting as of June 30, 2006, is fairly stated, in all material respects, based on criteria established in Internal Control - Integrated Framework issued by COSO. Also, in our opinion, Myriad Genetics maintained, in all material respects, effective internal control over financial reporting as of June 30, 2006, based on criteria established in Internal Control - Integrated Framework issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Myriad Genetics, Inc. and subsidiaries as of June 30, 2006 and 2005, and the related consolidated statements of operations, stockholders' equity and comprehensive loss, cash flows, and the related financial statement schedule for each of the years in the three-year period ended June 30, 2006, and our report dated September 6, 2006, expressed an unqualified opinion on those consolidated financial statements.

KPMG LLP

Salt Lake City, Utah

September 6, 2006

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

Consolidated Balance Sheets

June 30, 2006 and 2005

(In thousands, except per share amounts)

	2006	2005
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 98,573	49,509
Marketable investment securities	129,171	64,334
Prepaid expenses	2,326	3,331
Trade accounts receivable, less allowance for doubtful accounts of \$1,795 in 2006 and \$1,395 in 2005, respectively	20,820	17,236
Other receivables	1,397	1,145
Total current assets	252,287	135,555
Equipment and leasehold improvements:		
Equipment	47,255	40,160
Leasehold improvements	8,331	8,004
	55,586	48,164
Less accumulated depreciation and amortization	35,757	29,698
Net equipment and leasehold improvements	19,829	18,466
Other assets	4,487	4,937
	\$ 276,603	158,958
<b>Liabilities and Stockholders Equity</b>		
Current liabilities:		
Accounts payable	\$ 11,804	11,897
Accrued liabilities	14,901	11,045
Deferred revenue	117	343
Total current liabilities	26,822	23,285
Commitments and contingencies		
Stockholders equity:		
Preferred stock, \$0.01 par value. Authorized 5,000 shares; issued and outstanding no shares		
Common stock, \$0.01 par value. Authorized 60,000 shares; issued and outstanding 39,683 shares in 2006 and 30,862 shares in 2005	397	309
Additional paid-in capital	467,568	315,147
Accumulated other comprehensive loss	(746)	(534)
Accumulated deficit	(217,438)	(179,249)

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Total stockholders' equity	249,781	135,673
	\$ 276,603	158,958

See accompanying notes to consolidated financial statements.

F-3

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

Consolidated Statements of Operations

Years ended June 30, 2006, 2005, and 2004

(In thousands, except per share amounts)

	<b>2006</b>	<b>2005</b>	<b>2004</b>
Predictive medicine revenue	\$ 100,621	71,325	43,294
Research revenue	13,658	11,081	11,748
Related party research revenue			1,606
Total research revenue	13,658	11,081	13,354
Total revenues	114,279	82,406	56,648
Costs and expenses:			
Predictive medicine cost of revenue	27,644	20,322	13,751
Research and development expense	83,757	59,243	50,697
Selling, general, and administrative expense	48,467	43,586	34,835
Total costs and expenses	159,868	123,151	99,283
Operating loss	(45,589)	(40,745)	(42,635)
Other income (expense):			
Interest income	7,412	2,798	2,025
Other	(12)	(2,031)	(10)
	7,400	767	2,015
Net loss	\$ (38,189)	(39,978)	(40,620)
Basic and diluted loss per common share	\$ (1.05)	(1.30)	(1.49)
Basic and diluted weighted average shares outstanding	36,278	30,720	27,326
See accompanying notes to consolidated financial statements.			

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

Consolidated Statements of Stockholders Equity and Comprehensive Loss

Years ended June 30, 2006, 2005, and 2004

(In thousands)

	Common stock		Additional paid-in capital	Accumulated other comprehensive income (loss)	Accumulated deficit	Comprehensive loss	Stockholders equity
	Shares	Amount					
Balances at June 30, 2003	27,079	\$ 271	261,155	711	(98,651)		163,486
Issuance of common stock for cash upon exercise of options and employee stock purchase plan	144	1	1,237				1,238
Issuance of common stock for cash, net of offering costs of \$55	3,400	34	50,061				50,095
Net loss					(40,620)	(40,620)	(40,620)
Unrealized losses on marketable investment securities:							
Unrealized holding losses arising during period						(923)	
Other comprehensive loss				(923)		(923)	(923)
Comprehensive loss						(41,543)	
Balances at June 30, 2004	30,623	306	312,453	(212)	(139,271)		173,276
Issuance of common stock for cash upon exercise of options and employee stock purchase plan	239	3	2,463				2,466
Acceleration of vesting of stock options			231				231
Net loss					(39,978)	(39,978)	(39,978)
Unrealized losses on marketable investment securities:							
Unrealized holding losses arising during period						(322)	
Other comprehensive loss				(322)		(322)	(322)
Comprehensive loss						(40,300)	
Balances at June 30, 2005	30,862	309	315,147	(534)	(179,249)		135,673
Issuance of common stock for cash upon exercise of options and employee stock purchase plan	771	8	10,174				10,182
Issuance of common stock for cash, net of offering costs of \$251	8,050	80	139,658				139,738
Share-based payment expense			2,589				2,589

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Net loss				(38,189)	(38,189)	(38,189)
Unrealized losses on marketable investment securities:						
Unrealized holding losses arising during period					(212)	
Other comprehensive loss			(212)		(212)	(212)
Comprehensive loss					\$ (38,401)	
Balances at June 30, 2006	39,683	\$ 397	467,568	(746)	(217,438)	249,781

See accompanying notes to consolidated financial statements.

F-5



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

## Consolidated Statements of Cash Flows

Years ended June 30, 2006, 2005, and 2004

(In thousands)

	2006	2005	2004
<b>Cash flows from operating activities:</b>			
Net loss	\$ (38,189)	(39,978)	(40,620)
<b>Adjustments to reconcile net loss to net cash used in operating activities:</b>			
Depreciation and amortization	6,855	6,092	5,766
Loss on disposition of assets	12	67	10
Share-based compensation expense	2,589		
Bad debt expense	2,114	2,244	2,020
Impairment charge on investments in other companies		1,964	
Acceleration of option vesting		231	
<b>Changes in operating assets and liabilities:</b>			
Prepaid expenses	1,005	3,948	461
Trade accounts receivable	(5,698)	(5,486)	(3,097)
Other receivables	(252)	(591)	8,687
Related party receivables			150
Accounts payable	(93)	3,959	(3,516)
Accrued liabilities	3,856	5,112	1,008
Deferred revenue	(226)	(866)	(1,749)
<b>Net cash used in operating activities</b>	<b>(28,027)</b>	<b>(23,304)</b>	<b>(30,880)</b>
<b>Cash flows from investing activities:</b>			
Capital expenditures	(7,680)	(6,736)	(3,883)
Increase in other assets	(100)	(100)	(100)
Purchases of marketable investment securities	(165,519)	(44,603)	(52,730)
Proceeds from sales and maturities of marketable investment securities	100,470	70,956	25,487
<b>Net cash provided by (used in) investing activities</b>	<b>(72,829)</b>	<b>19,517</b>	<b>(31,226)</b>
<b>Cash flows from financing activities:</b>			
Net proceeds from public offering of common stock	139,738		50,095
Net proceeds from common stock issued under share-based compensation plans	10,182	2,466	1,238
<b>Net cash provided by financing activities</b>	<b>149,920</b>	<b>2,466</b>	<b>51,333</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>49,064</b>	<b>(1,321)</b>	<b>(10,773)</b>
Cash and cash equivalents at beginning of year	49,509	50,830	61,603
<b>Cash and cash equivalents at end of year</b>	<b>\$ 98,573</b>	<b>49,509</b>	<b>50,830</b>
<b>Supplemental disclosures of noncash investing and financing activities:</b>			
Fair value adjustment on marketable investment securities charged to stockholders' equity	\$ (212)	(322)	(923)
See accompanying notes to consolidated financial statements.			



**Table of Contents**

**MYRIAD GENETICS, INC.**

**AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

June 30, 2006 and 2005

**(1) Organization and Summary of Significant Accounting Policies**

***(a) Organization and Business Description***

Myriad Genetics, Inc. and subsidiaries (collectively, the Company) is a leading biotechnology company focused on the development and marketing of novel therapeutic and molecular diagnostic products. The Company employs a number of proprietary technologies that permit it to understand the genetic basis of human disease and the role that genes and their related proteins play in the onset and progression of disease. The Company uses this information to guide the development of new healthcare products that treat major diseases and assess a person's risk of disease later in life. The Company's operations are located in Salt Lake City, Utah.

***(b) Principles of Consolidation***

The consolidated financial statements presented herein include the accounts of Myriad Genetics, Inc. and its wholly owned subsidiaries, Myriad Genetic Laboratories, Inc., Myriad Pharmaceuticals, Inc., and Myriad Financial, Inc. All intercompany amounts have been eliminated in consolidation.

***(c) Cash Equivalents***

Cash equivalents of \$86.6 million and \$39.6 million at June 30, 2006 and 2005, respectively, consist of highly liquid debt instruments with maturities at date of purchase of 90 days or less. As of June 30, 2006 and 2005, the book value of cash equivalents approximates fair value.

***(d) Marketable Investment Securities***

The Company has classified its marketable investment securities as available-for-sale. Available-for-sale securities are recorded at fair value. Unrealized holding gains and losses, net of the related tax effect, on available-for-sale securities are excluded from earnings and are reported as a separate component of 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. 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.

***(e) Trade Accounts Receivable and Allowance for Doubtful Accounts***

Trade accounts receivable are comprised of amounts due from sales of the Company's predictive medicine products and are recorded at the invoiced amount, net of discounts and allowances. The allowance for doubtful accounts is based on the Company's best estimate of the amount of probable losses in the Company's existing accounts receivable, which is based on historical write-off experience, customer creditworthiness, facts and circumstances specific to outstanding balances, and payment term changes. Account balances are charged against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. The Company does not have any off-balance-sheet credit exposure related to its customers.



**Table of Contents**

**MYRIAD GENETICS, INC.**

**AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

June 30, 2006 and 2005

**(f) Equipment and Leasehold Improvements**

Equipment and leasehold improvements are stated at cost. Depreciation and amortization are computed using the straight-line method based on the lesser of estimated useful lives of the related assets or lease terms. Equipment items have depreciable lives of five years. Leasehold improvements are depreciated over the shorter of the estimated useful lives or the associated lease terms, which range from three to fifteen years. For the years ended June 30, 2006, 2005, and 2004, the Company incurred depreciation expense of \$6.3 million, \$5.5 million, and \$5.2 million, respectively.

**(g) Impairment of Long-Lived Assets**

The Company accounts for long-lived assets in accordance with the provisions of Statement of Financial Accounting Standards (SFAS) No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. This statement requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized in the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. No impairments of long-lived assets were recorded for the years ended June 30, 2006, 2005, and 2004.

**(h) Other Assets**

Other assets are comprised of purchased intellectual property, investments in privately held biotechnology and pharmaceutical companies, and a purchased library of chemical compounds. The private biotechnology and pharmaceutical company investments are both accounted for under the cost method. Management reviews the valuation of these investments for possible impairment as changes in facts and circumstances indicate that impairment should be assessed. The Company engaged an independent valuation firm to assist us in determining the fair value of the investments and compared it to the carrying amount of the investments as of June 30, 2006. The Company's valuation indicated that there was no impairment loss.

Based on changes to estimated cash flows compared to the prior fiscal year, the Company engaged an independent valuation firm to assist us in determining the fair value of the investments and compared it to the carrying amount of the investments as of June 30, 2005. The Company's valuation indicated that the Company had incurred an impairment loss of approximately \$2.0 million for its investment in a privately held pharmaceutical company. This impairment loss was included in other expense in the accompanying consolidated statement of operations for the year ended June 30, 2005.

The amount recognized by the Company upon the ultimate liquidation of this and other investments may vary significantly from the estimated fair value at June 30, 2006. The library of chemical compounds and related purchased intellectual property are being amortized ratably over the expected useful life of five years.

**Table of Contents**

**MYRIAD GENETICS, INC.**

**AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

June 30, 2006 and 2005

**(i) Revenue Recognition**

The Company applies the provisions of Securities and Exchange Commission Staff Accounting Bulletin No. 104, *Revenue Recognition* (SAB 104) to all of its revenue transactions.

Predictive medicine revenues include revenues from the sale of predictive medicine products, related marketing agreements, and forensic DNA analysis fees. Predictive medicine revenue is recognized upon completion of the test or analysis and communication of results. Payments received in advance of predictive medicine work performed are recorded as deferred revenue. Up-front payments related to marketing agreements are recognized ratably over the life of the agreement.

Research revenues include revenues from research agreements, milestone payments, and technology licensing agreements. In applying the principles of SAB 104 to research and technology license agreements the Company considers 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, on the basis of costs incurred relative to the total estimated contract costs (cost-to-cost method), or on the basis of contractually defined output measures such as units delivered. The Company makes adjustments, if necessary, to the estimates used in its cost-to-cost calculations as work progresses and the Company gains experience. 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. Actual results may vary from our estimates. 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. The Company recognizes revenue from milestone payments as agreed-upon events representing the achievement of substantive steps in the development process are achieved and where the amount of the milestone payments approximates the value of achieving the milestone. The Company recognizes revenue from up-front nonrefundable license fees on a straight-line basis over the period of the Company's continued involvement in the research and development project.

**(j) Income Taxes**

Income taxes are recorded using the asset and liability method. Under the asset and liability method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Deferred income tax assets are reviewed for recoverability and valuation allowances are provided when it is more likely than not that a deferred tax asset is not realizable in the future.

**Table of Contents**

**MYRIAD GENETICS, INC.**

**AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

June 30, 2006 and 2005

***(k) Net Loss per Common and Common Equivalent Share***

Net loss per common share is computed based on the weighted average number of common shares and, as appropriate, dilutive potential common shares outstanding during the period. Stock options and warrants are considered to be potential common shares.

Basic loss per common share is the amount of loss for the period available to each share of common stock outstanding during the reporting period. Diluted loss per share is the amount of loss for the period available to each share of common stock outstanding during the reporting period and to each share that would have been outstanding assuming the issuance of common shares for all dilutive potential common shares outstanding during the period.

In calculating loss per common share the net loss and the weighted average common shares outstanding were the same for both the basic and diluted calculation.

For the years ended June 30, 2006, 2005, and 2004, there were antidilutive potential common shares of 8,044,582, 7,394,358, and 5,899,252, respectively. Accordingly, these potential common shares were not included in the computation of diluted loss per share for the years presented, but may be dilutive to future basic and diluted earnings per share.

***(l) Use of Estimates***

The preparation of the consolidated financial statements in accordance with U.S. generally accepted accounting principles requires Company management to make a number of estimates and assumptions relating to the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the period. Significant items subject to such estimates and assumptions include the carrying amount of fixed assets, valuation allowances for receivables and deferred income tax assets, share-based compensation, and the valuation of investments in privately held companies. Actual results could differ from those estimates.

***(m) Fair Value Disclosure***

At June 30, 2006 and 2005, the consolidated financial statements carrying amount of the Company's financial instruments approximates fair value.

***(n) Stock-Based Compensation***

In December 2004, the Financial Accounting Standards Board (FASB) issued Statement No. 123R, *Share-Based Payment*. Statement 123R sets accounting requirements for share-based compensation to employees, including employee stock purchase plans, and requires companies to recognize in the income statement the grant-date fair value of stock options and other equity-based compensation. Statement 123R became effective for the Company on July 1, 2005. On April 14, 2005 the Company accelerated the vesting of unvested stock options previously awarded to employees and non-employee members of the board of directors under the Company's 2002 and 2003 stock option plans in order to avoid estimated charges of approximately \$25 million to future periods under the requirements of Statement 123R, as the options would have vested under their





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

## Notes to Consolidated Financial Statements

June 30, 2006 and 2005

unmodified terms. Approximately 3.5 million options were accelerated, of which 1.7 million options belong to executive officers and non-employee members of the board of directors. As a result of the acceleration of the vesting of the unvested options, the Company recognized an expense of approximately \$231,000 on the date of acceleration.

Prior to the adoption of Statement 123R the Company measured compensation cost for stock-based compensation using the intrinsic-value method of accounting prescribed by Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees* (APB 25). As such, with the exception of costs related to the acceleration of vesting of unvested options, stock-based employee compensation cost is not reflected in net loss for the fiscal years ended June 30, 2005 and 2004, as all options granted had an exercise price equal to the market value of the underlying common stock on the date of grant. The following table illustrates the effect on net loss and loss per share if the Company had applied the fair value recognition provisions of SFAS 123R to stock-based employee compensation (in thousands except per share amounts):

	<b>Year ended June 30</b>	
	<b>2005</b>	<b>2004</b>
Net loss, as reported	\$ 39,978	40,620
Add compensation expense for the acceleration of vesting of unvested options	(231)	
Deduct total stock-based employee compensation expense determined under fair value based method for all awards, net of tax related effects	49,604	25,105
Pro forma net loss	\$ 89,351	65,725
<b>Loss per share:</b>		
Basic and diluted as reported	\$ 1.30	1.49
Basic and diluted pro forma	2.91	2.41

**(o) Reclassifications**

Certain prior year amounts have been reclassified to conform to the current year presentation. In the accompanying consolidated balance sheet as of June 30, 2005, \$0.9 million of deferred revenue was reclassified to accrued liabilities. This reclassification did not have an impact on the Company's consolidated statements of operations or stockholders' equity and comprehensive loss or cash flows.

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

Notes to Consolidated Financial Statements

June 30, 2006 and 2005

**(2) Marketable Investment Securities**

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 June 30, 2006 and 2005 were as follows (in thousands):

	Amortized cost	Gross unrealized holding gains	Gross unrealized holding losses	Fair value
At June 30, 2006:				
Available-for-sale:				
Corporate bonds and notes	\$ 4,500	1		4,501
Certificate of deposit	42,567	2	(222)	42,347
Federal agency issues	50,296		(399)	49,897
Tax auction securities	15,625			15,625
Euro dollar bonds	16,929		(128)	16,801
	\$ 129,917	3	(749)	129,171
At June 30, 2005:				
Available-for-sale:				
Corporate bonds and notes	\$ 17,000	4	(147)	16,857
Certificate of deposit	1,000			1,000
Federal agency issues	31,053		(257)	30,796
Tax auction securities	1,700			1,700
Euro dollar bonds	14,115		(134)	13,981
	\$ 64,868	4	(538)	64,334

Maturities of debt securities classified as available-for-sale are as follows at June 30, 2006 (in thousands):

	Amortized cost	Fair value
Available-for-sale:		
Due within one year	\$ 104,095	103,468
Due after one year through three years	25,822	25,703

\$ 129,917 129,171

F-12

(Continued)

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

## Notes to Consolidated Financial Statements

June 30, 2006 and 2005

All securities in an unrealized loss position as of June 30, 2006 are debt securities. Debt securities in an unrealized loss position as of June 30, 2006 were not impaired at acquisition and the decline in fair value is due to interest rate fluctuations. Management believes that the decline in fair value is not other-than-temporary. Debt securities available for sale in an unrealized loss position as of June 30, 2006 are summarized as follows (in thousands):

	Less than 12 months		More than 12 months		Total	
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
Debt securities:						
Corporate bonds and notes	\$ 35,992	(200)	2,853	(22)	38,845	(222)
Federal agency issues	44,159	(337)	5,738	(62)	49,897	(399)
Euro dollar bonds	15,314	(93)	1,487	(35)	16,801	(128)
	\$ 95,465	(630)	10,078	(119)	105,543	(749)

**(3) Leases**

The Company leases office and laboratory space under four non-cancelable operating leases, with terms that expire between 2017 and 2021. Future minimum lease payments under these leases as of June 30, 2006 are as follows (in thousands):

Fiscal year ending:	
2007	\$ 5,128
2008	6,224
2009	5,143
2010	5,115
2011	5,115
Thereafter	39,841
	\$ 66,566

Rental expense was \$3.2 million in 2006, \$3.2 million in 2005, and \$4.0 million in 2004.

**(4) Share-Based Compensation**

On July 1, 2005 the Company adopted the provisions of Financial Accounting Standards Board Statement No. 123R, *Share-Based Payment* (Statement 123R). Statement 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.

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In 2003 the Company adopted the 2003 Employee, Director and Consultant Stock Option Plan (the 2003 Plan) under which 3.9 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

F-13

(Continued)

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

## Notes to Consolidated Financial Statements

June 30, 2006 and 2005

Plan without delivery of shares of stock by the Company and any shares which have been 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.

The exercise price of options granted in 2006, 2005, and 2004 was equivalent to the fair market value of the stock at the date of grant. The number of shares, terms, and vesting period are determined by the board of directors on an option-by-option basis. Options generally vest ratably over service periods of four years and expire ten years from the date of grant. As of June 30, 2006, 658,596 shares are reserved for future grant under the Company's plans.

The Company's share-based payment plans are now accounted for under Statement 123R. The fair value of each option grant is estimated on the date of the grant using the Black-Scholes option-pricing model with the following weighted-average assumptions used for grants for the fiscal year ended June 30, 2006: risk-free interest rate of 4.3%; expected dividend yield of 0%; expected lives ranging from 4.4 years to 5.0 years; and expected volatility of 63%. The weighted-average assumptions used for the fiscal years ended June 30, 2005 and 2004, respectively, were as follows: risk-free interest rates of 3.6% and 3.2%; expected dividend yield of 0% for both years; expected lives of 6.2 years and 6.0 years; and expected volatilities of 50% and 59%. Expected option lives and volatilities are based on historical data of the Company and other factors.

A summary of activity is as follows:

	2006		2005		2004	
	Number of shares	Weighted average exercise price	Number of shares	Weighted average exercise price	Number of shares	Weighted average exercise price
Options outstanding at beginning of year	7,364,358	\$ 25.70	5,933,252	\$ 27.28	4,956,144	\$ 31.29
Plus options granted	1,421,905	22.23	1,718,150	19.39	1,296,875	14.43
Less:						
Options exercised	(648,438)	12.83	(144,701)	8.48	(44,675)	6.29
Options canceled or expired	(123,243)	38.69	(142,343)	33.17	(275,092)	36.19
Options outstanding at end of year	8,014,582	25.92	7,364,358	25.70	5,933,252	27.28
Options exercisable at end of year	6,625,482	26.70	7,355,358	25.71	3,102,658	31.52
Options vested and expected to vest	7,836,244	26.00				
Weighted average fair value of options granted during the year		12.27		10.09		8.25

F-14

(Continued)

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

Notes to Consolidated Financial Statements

June 30, 2006 and 2005

The following table summarizes information about stock options outstanding at June 30, 2006:

Range of exercise prices	Options outstanding			Options exercisable	
	Number outstanding at June 30, 2006	Weighted average remaining contractual life (years)	Weighted average exercise price	Number exercisable at June 30, 2006	Weighted average exercise price
\$ 4.69 - 16.64	2,547,727	5.75	\$ 11.74	2,539,227	\$ 11.72
16.69 - 22.12	2,284,662	8.50	20.10	1,500,712	19.83
23.37 - 43.22	2,032,934	6.44	27.38	1,436,284	28.62
45.32 - 93.81	1,149,259	4.61	66.37	1,149,259	66.37
	8,014,582	6.54	25.92	6,625,482	26.70

Share-based compensation expense included in the consolidated statement of operations for the fiscal year ended June 30, 2006 was approximately \$2,589,000, which is included in predictive medicine cost of revenue, research and development expense, and selling, general, and administrative expense. As of June 30, 2006, there was approximately \$12.3 million of total unrecognized share-based compensation cost related to share-based compensation granted under our plans that will be recognized over a weighted-average period of 3.3 years. The total intrinsic value of options exercised during the fiscal year ended June 30, 2006 was approximately \$5.3 million. The aggregate intrinsic value of fully vested options and options expected to vest as of June 30, 2006 was approximately \$46.6 million. The total fair value of shares vested during the fiscal year ended June 30, 2006 was \$0.

The Company also has an Employee Stock Purchase Plan (the Plan) which was adopted and approved by the board of directors and stockholders in December 1994, under which a maximum of 400,000 shares of common stock may be purchased by eligible employees. In November 2004 the board of directors and stockholders approved an additional 200,000 shares which may be offered under the Plan. At June 30, 2006, 525,928 shares of common stock had been purchased under the Plan. For the years ended June 30, 2006, 2005, and 2004, shares purchased under the Plan were 122,109, 94,553, and 93,006, respectively. Expenses associated with the Plan were approximately \$628,000, \$0, and \$0 for the years ended June 30, 2006, 2005, and 2004, respectively. The fair value of shares issued under the Plan was calculated using the Black-Scholes option-pricing model with the following weighted-average assumptions for the fiscal year ended June 30, 2006: risk-free interest rate of 4.65%; expected dividend yield of 0%; expected life of 0.5 years; and expected volatility of 42%.

As of June 30, 2006, 30,000 warrants previously granted to placement agents were outstanding and exercisable at a weighted average price of \$40.00 per share.

**(5) Income Taxes**

The Company recorded no income tax expense in 2006, 2005, and 2004. The difference between the expected tax benefit for all periods presented and the actual tax expense is primarily attributable to the effect of net operating losses being offset by an increase in the Company's valuation allowance.





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

## Notes to Consolidated Financial Statements

June 30, 2006 and 2005

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities at June 30, 2006 and 2005 are presented below (in thousands):

	2006	2005
Deferred tax assets:		
Net operating loss carryforwards	\$ 112,266	96,285
Unearned revenue	44	467
Equipment, principally due to differences in depreciation	569	467
Research and development credits	17,170	14,584
Accrued liabilities and other	3,105	3,690
<b>Total gross deferred tax assets</b>	<b>133,154</b>	<b>115,493</b>
Less valuation allowance	(133,154)	(115,493)
<b>Net deferred tax assets</b>	<b>\$</b>	

The net change in the total valuation allowance for the years ended June 30, 2006 and 2005 was an increase of \$17.7 million and \$22.2 million, respectively. Approximately \$39.8 million of deferred tax assets at June 30, 2006, if recognizable in future years, will be recognized as additional paid-in capital, and the remainder will be allocated as an income tax benefit to be reported in the consolidated statement of operations.

At June 30, 2006, the Company had total federal tax net operating loss carryforwards of approximately \$301 million and research and development credit carryforwards of approximately \$11.3 million, which can be carried forward to reduce federal income taxes. If not utilized, the tax loss and research and development credit carryforwards expire beginning in 2007 through 2026. The Company's alternative minimum tax net operating losses are approximately the same as its regular tax net operating losses. The Company also has state net operating loss and research credit carryforwards that may be utilized in accordance with the various states' rules and regulations.

Under the rules of the Tax Reform Act of 1986, the Company has undergone changes of ownership, and consequently, the availability of the Company's net operating loss and research and experimentation credit carryforwards in any one year are limited. The maximum amount of carryforwards available in a given year is limited to the product of the Company's value on the date of ownership change and the federal long-term tax-exempt rate, plus any limited carryforward not utilized in prior years. Management has not computed the amount of any limitation or evaluated whether these rules will result in any losses or credits expiring unutilized.

**(6) Employee Deferred Savings Plan**

The Company has a deferred savings plan which qualifies under Section 401(k) of the Internal Revenue Code. Substantially all of the Company's employees are covered by the plan. The Company makes matching contributions of 50% of each employee's contribution with the employer's contribution not to exceed 4% of the employee's compensation. The Company's contributions to the plan were \$1,431,000, \$1,175,000, and \$970,000 for the years ended June 30, 2006, 2005, and 2004, respectively.

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**Table of Contents**

**MYRIAD GENETICS, INC.**

**AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

June 30, 2006 and 2005

**(7) Collaborative Research Agreements**

In June 2005, the Company entered into a \$10.1 million research collaboration to apply its high-speed genomic sequencing capability and bioinformatics expertise to deliver molecular genetic information to the collaborator. Revenue related to this collaboration is recognized when completed information is delivered to the collaborator. Under this agreement the Company recognized research revenue of \$7.1 million for the fiscal year ended June 30, 2006.

In June 2004, the Company entered into a five-year, \$14.2 million research agreement to utilize its expertise to characterize pathogen-host protein interactions. Revenue related to this collaboration is being recognized on a cost-to-cost basis. Under this agreement the Company recognized research revenue of \$2.4 million and \$2.3 million for the fiscal year ended June 30, 2006 and 2005, respectively.

In May 2005, the Company licensed a portion of its intellectual property related to a cancer compound to an oncology drug development company. The Company has no continuing obligations under the license. As a result of the license agreement the Company recognized the related \$2.5 million in research revenue for the fiscal year ended June 30, 2005.

In March 2002, the Company entered into a three-year, \$13.8 million research collaboration to identify novel drug targets for the diagnosis and treatment of depression. The agreement, which was completed in February 2005, provided the collaborator with certain license rights and specified guaranteed research funding, potential milestones, and royalties to the Company. Revenue related to the license agreement was recognized ratably over the license period and revenue related to this research collaboration was recognized as research was performed on a cost-to-cost basis. Revenue from the achievement of milestones was recognized upon achieving the milestone. Under this agreement the Company recognized research revenue of \$0, \$2.5 million, and \$4.4 million for the fiscal years ended June 30, 2006, 2005, and 2004, respectively.

Also in March 2002, the Company formed a \$24 million research collaboration to apply its high-speed genomic sequencing capability and bioinformatics expertise to deliver molecular genetic information to the collaborator. The agreement, which was completed in October 2003, provided the collaborator with certain license rights. Revenue related to this research collaboration was recognized on a straight-line basis. Under this contract the Company recognized research revenue of \$0, \$0, and \$5.1 million for the fiscal years ended June 30, 2006, 2005, and 2004, respectively.

**(8) Segment and Related Information**

The Company's business units have been aggregated into three reportable segments: (i) research, (ii) predictive medicine, and (iii) drug development. The research segment is focused on the discovery of genes related to major common diseases. The predictive medicine segment provides testing to determine predisposition to common diseases. The drug development segment is focused on the development of therapeutic products for the treatment and prevention of major diseases.

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

## Notes to Consolidated Financial Statements

June 30, 2006 and 2005

The accounting policies of the segments are the same as those described in the summary of significant accounting policies (note 1). The Company evaluates segment performance based on loss from operations before interest income and expense and other income and expense.

	Research	Predictive medicine	Drug development	Total
<b>Year ended June 30, 2006:</b>				
Revenues	\$ 13,658	100,621		114,279
Depreciation and amortization	2,654	2,123	2,078	6,855
Segment operating gain (loss)	(15,496)	34,969	(65,062)	(45,589)
<b>Year ended June 30, 2005:</b>				
Revenues	11,081	71,325		82,406
Depreciation and amortization	2,149	2,033	1,910	6,092
Segment operating gain (loss)	(13,752)	15,764	(42,757)	(40,745)
<b>Year ended June 30, 2004:</b>				
Revenues	13,354	43,294		56,648
Depreciation and amortization	2,273	1,768	1,725	5,766
Segment operating gain (loss)	(16,581)	2,975	(29,029)	(42,635)
		<b>2006</b>	<b>2005</b>	<b>2004</b>
Total operating loss for reportable segments		\$ (45,589)	(40,745)	(42,635)
Unallocated amounts:				
Interest income		7,412	2,798	2,025
Other		(12)	(2,031)	(10)
Net loss		\$ (38,189)	(39,978)	(40,620)

All of the Company's revenues were derived from research and testing performed in the United States. Additionally, all of the Company's long-lived assets are located in the United States. All of the Company's research segment revenue was generated from eight, nine, and five collaborators in fiscal 2006, 2005, and 2004, respectively. No revenue from any collaborator was in excess of 10% of the Company's consolidated revenues for fiscal years 2006, 2005, and 2004, respectively.

**(9) Stockholder Rights Plan**

The Company has in place a Stockholder Rights Plan (the Plan). The Plan provides registered holders of the Company's common stock one preferred share purchase right for each outstanding share of the Company's common stock. Each right entitles the holder to purchase one one-hundredth of a share of a new series of junior participating preferred stock. The rights have certain anti-takeover effects and allow the Company's stockholders (other than the acquiror) to purchase common stock in the Company or in the acquiror at a substantial discount. Prior to the ten days following the acquisition by a person or group of beneficial ownership of 15% or more of the Company's common stock, the Board of Directors may redeem the rights in whole, but not in part, at a price of \$0.01 per right.



**Table of Contents**

**MYRIAD GENETICS, INC.**

**AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

June 30, 2006 and 2005

**(10) Investment in Prolexys Pharmaceuticals, Inc.**

In April 2001, the Company contributed technology to Prolexys Pharmaceuticals, Inc. (Prolexys), in exchange for a 49% ownership interest and investors contributed a combined \$82 million in cash in exchange for the remaining 51% ownership in Prolexys.

The Company accounts for its investment in Prolexys using the equity method. Because the Company's initial investment in Prolexys consisted of technology with a carrying value of \$0 on the Company's consolidated financial statements, and given the uncertainty of the realizability of the difference between the \$82 million carrying amount and the Company's proportionate share of the net assets of Prolexys, the Company's initial investment in Prolexys was recorded as \$0. The Company allocated \$41 million of this difference to technology which is being reduced as the related technology amortization, including in-process research and development charges, are recorded at Prolexys. At June 30, 2006, the remaining technology basis difference is estimated to be \$8.9 million. The remaining \$41 million of unallocated basis difference is being accreted to income, offset by the Company's share of Prolexys' losses, over the period of expected benefit of 10 years. For the period from the original investment in Prolexys through June 30, 2006, the Company's portion of the Prolexys' net losses exceeded the accretion of the unallocated basis. Accordingly, the Company's investment in Prolexys is carried at \$0.

As part of the formation of Prolexys, the Company entered into administrative and scientific outsourcing agreements with Prolexys. The original terms of these agreements expired on December 31, 2001, but were extended until June 30, 2002 and again to June 30, 2003 at the option of Prolexys. This agreement was terminated effective January 26, 2004.

Charges to Prolexys for services incurred related to the administrative and scientific outsourcing agreements were based on actual time and expenses incurred by the Company on behalf of Prolexys. During the years ended June 30, 2006, 2005, and 2004, the Company provided \$0, \$0, and \$1.6 million, respectively, of administrative and scientific services to Prolexys.

F-19

(Continued)

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

Notes to Consolidated Financial Statements

June 30, 2006 and 2005

Summarized balance sheet information as of June 30, 2006 and 2005 for Prolexys is as follows (in thousands):

	2006	2005
	(Unaudited)	
Current assets	\$ 5,302	13,352
Noncurrent assets	3,600	28,337
Current liabilities	1,739	2,305
Noncurrent liabilities	22	8,455
Stockholders' equity	7,141	30,929

Summarized statement of operations information for Prolexys for the years ended June 30, 2006, 2005, and 2004 is as follows (in thousands):

	2006	2005	2004
	(Unaudited)		
Total revenues	\$ 1,253	694	1,108
Other operating costs and expenses	33,310	20,539	33,560
Net loss	(23,802)	(17,090)	(26,508)

**(11) Public Offering of Common Stock**

In November 2005, the Company received \$139.7 million in net proceeds from an underwritten public offering of 8,050,000 shares of common stock pursuant to the Company's outstanding shelf registration on Form S-3 (Registration No. 333-123914). The Company has approximately \$151.1 million of securities available for sale under the shelf registration statement.

**(12) Contingencies**

Various legal claims have been filed against the Company that relate to the ordinary course of business and are currently pending resolution. In the opinion of management upon consultation with legal counsel, the ultimate resolution of these matters will not have a material adverse effect on the financial position or future results of operations of the Company.

Table of Contents

Schedule II

## MYRIAD GENETICS, INC.

## Schedule of Valuation and Qualifying Accounts

Years Ended June 30, 2006, 2005, and 2004

*(In thousands)*

	Balance at Beginning of Period	Addition Charged to Cost and Expenses	Deductions (1)	Balance at End of Period
<b>Allowance for doubtful accounts:</b>				
Year ended June 30, 2006	\$ 1,395	\$ 2,114	\$ (1,714)	\$ 1,795
Year ended June 30, 2005	\$ 1,205	\$ 2,244	\$ (2,054)	\$ 1,395
Year ended June 30, 2004	\$ 895	\$ 2,020	\$ (1,710)	\$ 1,205

(1) Represents amounts written off against the allowance.  
See report of independent registered public accounting firm.

**Table of Contents**

**EXHIBIT INDEX**

<b>Exhibit Number</b>	<b>Description of Exhibits</b>
(21.1)	List of Subsidiaries of the Registrant
(23.1)	Consent of KPMG LLP
(31.1)	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
(31.2)	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
(32)	Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002