

MYRIAD GENETICS INC  
Form 10-Q  
February 06, 2007  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**FORM 10-Q**

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(Mark One)

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

For the quarterly period ended December 31, 2006

OR

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

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

Commission file number: 0-26642

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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

84108

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*(Address of principal executive offices)*

*(Zip Code)*

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

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, 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

As of February 1, 2007 the registrant had 39,942,476 shares of \$0.01 par value common stock outstanding.

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

| <i>(in thousands, except per share amounts)</i>  | <b>Dec. 31, 2006</b> | <b>June 30, 2006</b> |
|--|----------------------|----------------------|
| <u>Assets</u>  |                      |                      |
| Current assets:  |                      |                      |
| Cash and cash equivalents  | \$ 85,868            | \$ 98,573            |
| Marketable investment securities   | 117,643              | 129,171              |
| Prepaid expenses   | 3,932                | 2,326                |
| Trade accounts receivable, less allowance for doubtful accounts of \$2,150 at Dec. 31, 2006 and \$1,795 at June 30, 2006             | 24,006               | 20,820               |
| Other receivables  | 2,920                | 1,397                |
| Total current assets   | 234,369              | 252,287              |
| Equipment and leasehold improvements:  |                      |                      |
| Equipment  | 53,337               | 47,255               |
| Leasehold improvements   | 9,358                | 8,331                |
|  | 62,695               | 55,586               |
| Less accumulated depreciation and amortization   | 38,934               | 35,757               |
| Net equipment and leasehold improvements   | 23,761               | 19,829               |
| Other assets   | 4,192                | 4,487                |
|  | \$ 262,322           | \$ 276,603           |
| <u>Liabilities and Stockholders' Equity</u>  |                      |                      |
| Current liabilities:   |                      |                      |
| Accounts payable   | \$ 15,197            | \$ 11,804            |
| Accrued liabilities  | 10,841               | 14,901               |
| Deferred revenue   | 434                  | 117                  |
| Total current liabilities  | 26,472               | 26,822               |
| Stockholders' equity:  |                      |                      |
| Preferred stock, \$0.01 par value, 5,000 shares authorized, no shares issued and outstanding   |                      |                      |
| Common stock, \$0.01 par value, 60,000 shares authorized; issued and outstanding 39,897 at Dec. 31, 2006 and 39,683 at June 30, 2006 | 399                  | 397                  |
| Additional paid-in capital   | 474,391              | 467,568              |
| Accumulated other comprehensive loss   | (281)                | (746)                |
| Accumulated deficit  | (238,659)            | (217,438)            |
| Total stockholders' equity   | 235,850              | 249,781              |
|  | \$ 262,322           | \$ 276,603           |

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



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## MYRIAD GENETICS, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

| <i>(in thousands, except per share amounts)</i>              | Three Months Ended |                   | Six Months Ended   |                    |
|--|--------------------|-------------------|--------------------|--------------------|
|  | Dec. 31, 2006      | Dec. 31, 2005     | Dec. 31, 2006      | Dec. 31, 2005      |
| <b>Revenues:</b>   |                    |                   |                    |                    |
| Molecular diagnostic revenue                                 | \$ 34,175          | \$ 23,392         | \$ 65,026          | \$ 44,921          |
| Research revenue   | 2,960              | 3,938             | 5,652              | 7,524              |
| <b>Total revenues</b>  | <b>37,135</b>      | <b>27,330</b>     | <b>70,678</b>      | <b>52,445</b>      |
| <b>Costs and expenses:</b>                                   |                    |                   |                    |                    |
| Molecular diagnostic cost of revenue                         | 7,529              | 6,272             | 15,634             | 12,075             |
| Research and development expense                             | 24,764             | 19,030            | 51,116             | 37,495             |
| Selling, general and administrative expense                  | 16,211             | 11,628            | 30,297             | 22,528             |
| <b>Total costs and expenses</b>                              | <b>48,504</b>      | <b>36,930</b>     | <b>97,047</b>      | <b>72,098</b>      |
| <b>Operating loss</b>  | <b>(11,369)</b>    | <b>(9,600)</b>    | <b>(26,369)</b>    | <b>(19,653)</b>    |
| <b>Other income (expense):</b>                               |                    |                   |                    |                    |
| Interest income  | 2,573              | 1,649             | 5,175              | 2,460              |
| Other  |                    | (1)               | (27)               | (1)                |
|  | 2,573              | 1,648             | 5,148              | 2,459              |
| <b>Net loss</b>  | <b>\$ (8,796)</b>  | <b>\$ (7,952)</b> | <b>\$ (21,221)</b> | <b>\$ (17,194)</b> |
| <b>Basic and diluted loss per share</b>                      | <b>\$ (0.22)</b>   | <b>\$ (0.22)</b>  | <b>\$ (0.53)</b>   | <b>\$ (0.52)</b>   |
| <b>Basic and diluted weighted average shares outstanding</b> | <b>39,808</b>      | <b>35,547</b>     | <b>39,754</b>      | <b>33,217</b>      |

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

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## MYRIAD GENETICS, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

| <i>(In thousands)</i>   | Six Months Ended |                   |
|---|------------------|-------------------|
|   | Dec. 31, 2006    | Dec. 31, 2005     |
| Cash flows from operating activities:                                       |                  |                   |
| Net loss  | \$ (21,221)      | \$ (17,194)       |
| Adjustments to reconcile net loss to net cash used in operating activities: |                  |                   |
| Depreciation and amortization   | 3,581            | 3,334             |
| Loss on disposition of assets   | 27               | 1                 |
| Bad debt expense  | 2,314            | 869               |
| Share-based compensation expense  | 3,094            | 729               |
| Changes in operating assets:  |                  |                   |
| Prepaid expenses  | (1,606)          | (3,406)           |
| Trade accounts receivable   | (5,500)          | (2,612)           |
| Other receivables   | (1,523)          | 131               |
| Accounts payable  | 3,393            | 2,811             |
| Accrued liabilities   | (4,060)          | (2,553)           |
| Deferred revenue  | 317              | 40                |
| <b>Net cash used in operating activities</b>                                | <b>(21,184)</b>  | <b>(17,850)</b>   |
| Cash flows from investing activities:                                       |                  |                   |
| Capital expenditures  | (7,265)          | (3,252)           |
| Sales (purchases) of other assets   | 20               | (100)             |
| Purchases of marketable investment securities                               | (42,838)         | (75,719)          |
| Proceeds from maturities of marketable investment securities                | 54,831           | 23,418            |
| <b>Net cash provided by (used in) investing activities</b>                  | <b>4,748</b>     | <b>(55,653)</b>   |
| Cash flows from financing activities:                                       |                  |                   |
| Net proceeds from public offering of common stock                           |                  | 139,746           |
| Net proceeds from common stock issued under share-based compensation plans  | 3,731            | 2,830             |
| <b>Net cash provided by financing activities</b>                            | <b>3,731</b>     | <b>142,576</b>    |
| Net increase (decrease) in cash and cash equivalents                        | (12,705)         | 69,073            |
| Cash and cash equivalents at beginning of period                            | 98,573           | 49,509            |
| <b>Cash and cash equivalents at end of period</b>                           | <b>\$ 85,868</b> | <b>\$ 118,582</b> |

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

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MYRIAD GENETICS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

(1) Basis of Presentation

The accompanying condensed consolidated financial statements have been prepared by Myriad Genetics, Inc. (the Company) in accordance with U.S. generally accepted accounting principles (GAAP) for interim financial information and pursuant to the applicable rules and regulations of the Securities and Exchange Commission. The condensed consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation. In the opinion of management, the accompanying financial statements contain all adjustments (consisting of normal and recurring accruals) necessary to present fairly all financial statements in accordance with U.S. GAAP. The condensed consolidated financial statements herein should be read in conjunction with the Company's audited consolidated financial statements and notes thereto for the fiscal year ended June 30, 2006, included in the Company's Annual Report on Form 10-K for the year ended June 30, 2006. Operating results for the three and six months ended December 31, 2006 may not necessarily be indicative of results to be expected for any other interim period or for the full year.

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

(2) Share-Based Compensation

On July 1, 2005 the Company adopted the provisions of Statement of Financial Accounting Standards (SFAS) No. 123R, *Share-Based Payment* (SFAS 123R). SFAS 123R sets accounting requirements for share-based compensation to employees, including employee stock purchase plans, and requires companies to recognize in the statement of operations the grant-date fair value of stock options and other equity-based compensation.

In 2003 the Company adopted the 2003 Employee, Director and Consultant Stock Option Plan (the 2003 Plan), as amended most recently in November 2006, under which 5.4 million shares of common stock have been reserved for issuance upon the exercise of options that the Company grants from time to time. Additional shares represented by options previously granted under the Company's 2002 Amended and Restated Employee, Director and Consultant Stock Option Plan (the 2002 Plan) which are canceled or expire after the date of stockholder approval of the 2003 Plan without delivery of shares of stock by the Company and any shares which 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 number of shares, terms, and exercise period are determined by the board of directors on an option-by-option basis. Options generally vest ratably over four years and expire ten years from the date of grant. The exercise price of options granted is equivalent to the fair market value of the stock at the date of grant. During the three and six months ended December 31, 2006 the Company granted approximately 105,000 and 719,000 options under the 2003 Plan, respectively. The Company also has an Employee Stock Purchase Plan under which a maximum of 1,000,000 shares of common stock may be purchased by eligible employees. During the three and six months ended December 31, 2006, the Company issued 43,789 shares of common stock under the Employee Stock Purchase Plan.



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

Share-based compensation expense included in the consolidated statements of operations for the three and six months ended December 31, 2006 was approximately \$1.7 million and \$3.1 million, respectively. Share-based compensation expense included in the consolidated statements of operations for the three and six months ended December 31, 2005 was approximately \$490,000 and \$729,000, respectively. As of December 31, 2006, there was approximately \$17.9 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 3.1 years.

**(3) Comprehensive Loss**

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

|   | <b>Three Months Ended Dec. 31,</b> |                   | <b>Six Months Ended Dec. 31,</b> |                    |
|---|------------------------------------|-------------------|----------------------------------|--------------------|
|   | <b>2006</b>                        | <b>2005</b>       | <b>2006</b>                      | <b>2005</b>        |
| Net loss  | \$ (8,796)                         | \$ (7,952)        | \$ (21,221)                      | \$ (17,194)        |
| Unrealized gain (loss) on available-for-sale securities | 120                                | (32)              | 465                              | (138)              |
| <b>Comprehensive loss</b>                               | <b>\$ (8,676)</b>                  | <b>\$ (7,984)</b> | <b>\$ (20,756)</b>               | <b>\$ (17,332)</b> |

**(4) Loss Per Common Share**

As of December 31, 2006 and 2005, there were outstanding antidilutive common stock equivalents of 8,504,120 and 7,909,656, respectively. Because the computation of diluted loss per share does not include common stock equivalents that would have an antidilutive effect, the Company's calculation of the weighted average common shares outstanding utilized to calculate loss per common share was the same for both the basic and diluted calculation. These common stock equivalents may be dilutive to future basic and diluted earnings per share.

**(5) Segment and Related Information**

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

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

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| <i>(in thousands)</i>             | <b>Research</b> | <b>Molecular<br/>diagnostics</b> | <b>Drug<br/>development</b> | <b>Total</b> |
|-----------------------------------|-----------------|----------------------------------|-----------------------------|--------------|
| Three months ended Dec. 31, 2006: |                 |                                  |                             |              |
| Revenues                          | \$ 2,960        | \$ 34,175                        |                             | \$ 37,135    |
| Depreciation and amortization     | 661             | 545                              | 618                         | 1,824        |
| Segment operating income (loss)   | (5,201)         | 15,003                           | (21,171)                    | (11,369)     |
| Three months ended Dec. 31, 2005: |                 |                                  |                             |              |