MYRIAD GENETICS INC
Form 10-Q
November 03, 2010
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# UNITED STATES

# SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# FORM 10-Q

**(Mark One)**

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

**For the quarterly period ended September 30, 2010**

**OR**

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

**For the transition period from _____ to _____**

**Commission file number: 0-26642**

# MYRIAD GENETICS, INC.

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

| **Delaware** | **87-0494517** |
|---|---|
| **(State or other jurisdiction of incorporation or organization)** | **(I.R.S. Employer Identification No.)** |
| **320 Wakara Way, Salt Lake City, UT** | **84108** |
| **(Address of principal executive offices)** | **(Zip Code)** |

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

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

| | |
|---|---|
| Large accelerated filer x | Accelerated filer ¨ |
| Non-accelerated filer ¨ (Do not check if smaller reporting company) | Smaller reporting company ¨ |

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

As of October 29, 2010 the registrant had 92,383,931 shares of $0.01 par value common stock outstanding.

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MYRIAD GENETICS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

| *(In thousands, except per share amounts)* | Sep. 30, 2010 | Jun. 30, 2010 |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 123,305 | $ 92,840 |
| Marketable investment securities | 305,033 | 310,388 |
| Prepaid expenses | 5,000 | 4,054 |
| Trade accounts receivable, less allowance for doubtful accounts of $4,200 at Sep. 30, 2010 and $4,400 at Jun. 30, 2010 | 43,829 | 47,801 |
| Deferred taxes | 14,293 | 18,560 |
| Other receivables | 387 | 333 |
| Total current assets | 491,847 | 473,976 |
| Equipment and leasehold improvements: | | |
| Equipment | 50,900 | 48,941 |
| Leasehold improvements | 16,332 | 16,332 |
| | 67,232 | 65,273 |
| Less accumulated depreciation | 43,689 | 42,012 |
| Net equipment and leasehold improvements | 23,543 | 23,261 |
| Long-term marketable investment securities | 80,064 | 85,154 |
| Long-term deferred taxes | 13,416 | 9,404 |
| Other assets | 1,972 | 2,052 |
| Total assets | $ 610,842 | $ 593,847 |
| **Liabilities and Stockholders Equity** | | |
| Current liabilities: | | |
| Accounts payable | $ 7,242 | $ 8,870 |
| Accrued liabilities | 23,689 | 18,596 |
| Total current liabilities | 30,931 | 27,466 |
| Unrecognized tax benefits | 8,800 | 8,800 |
| Total liabilities | 39,731 | 36,266 |
| Stockholders equity: | | |
| Preferred stock, $0.01 par value, authorized 5,000 shares, issued and outstanding no shares | | |
| Common stock, $0.01 par value, authorized 150,000 shares at Sep. 30, 2010 and Jun. 30, 2010, issued and outstanding 92,355 at Sep. 30, 2010 and 94,046 at Jun. 30, 2010 | 924 | 940 |
| Additional paid-in capital | 573,683 | 566,967 |
| Accumulated other comprehensive income | 262 | 139 |
| Accumulated deficit | (3,758) | (10,465) |

| | | |
|---|---|---|
| Total stockholders equity | 571,111 | 557,581 |
| | $ 610,842 | $ 593,847 |

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

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MYRIAD GENETICS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

| *(In thousands, except per share amounts)* | Three Months Ended Sep. 30, 2010 | Sep. 30, 2009 |
|---|---|---|
| Revenue | $ 91,858 | $ 85,122 |
| Costs and expenses: | | |
| Cost of revenue | 11,011 | 11,062 |
| Research and development expense | 5,762 | 5,676 |
| Selling, general, and administrative expense | 39,494 | 38,672 |
| Total costs and expenses | 56,267 | 55,410 |
| Operating income | 35,591 | 29,712 |
| Other income (expense): | | |
| Interest income | 721 | 1,913 |
| Other | (134) | (215) |
| Total other income | 587 | 1,698 |
| Income before income taxes | 36,178 | 31,410 |
| Income tax provision | 13,640 | 968 |
| Net income | $ 22,538 | $ 30,442 |
| Earnings per share: | | |
| Basic | $ 0.24 | $ 0.32 |
| Diluted | $ 0.24 | $ 0.31 |
| Weighted average shares outstanding | | |
| Basic | 93,263 | 95,970 |
| Diluted | 94,734 | 99,492 |

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)

| *(In thousands)* | Three Months Ended Sep. 30, 2010 | Sep. 30, 2009 |
|---|---|---|
| Cash flows from operating activities: | | |
| Net income | $ 22,538 | $ 30,442 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 1,757 | 1,779 |
| Loss on disposition of assets | | 288 |
| Share-based compensation expense | 6,373 | 5,378 |
| Bad debt expense | 4,360 | 4,421 |
| Deferred income taxes | 12,538 | |
| Unrecognized tax benefits | (467) | |
| Excess tax benefit from stock-based compensation | (12,358) | |
| (Gain) loss on sale of marketable investment securities | 10 | (73) |
| Changes in operating assets and liabilities: | | |
| Prepaid expenses | (946) | (3,918) |
| Trade accounts receivable | (388) | (3,540) |
| Other receivables | (54) | (420) |
| Accounts payable | (1,628) | (6,529) |
| Accrued liabilities | (2,439) | (4,647) |
| Net cash provided by operating activities | 29,296 | 23,181 |
| Cash flows from investing activities: | | |
| Capital expenditures for equipment and leasehold improvements | (1,959) | (1,577) |
| Purchases of marketable investment securities | (47,519) | (55,168) |
| Proceeds from sales and maturities of marketable investment securities | 66,151 | 58,057 |
| Net cash provided by investing activities | 16,673 | 1,312 |
| Cash flows from financing activities: | | |
| Net proceeds from common stock issued under share-based compensation plans | 744 | 3,193 |
| Excess tax benefit from stock-based compensation | 12,358 | |
| Repurchase and retirement of common stock | (28,606) | |
| Net cash (used in) provided by financing activities | (15,504) | 3,193 |
| Net increase in cash and cash equivalents | 30,465 | 27,686 |
| Cash and cash equivalents at beginning of period | 92,840 | 63,510 |
| Cash and cash equivalents at end of period | $ 123,305 | $ 91,196 |

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 ( SEC ). The condensed consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, Myriad Genetics Laboratories, Inc. and Myriad Therapeutics, Inc. All intercompany accounts and transactions have been eliminated in consolidation. In the opinion of management, the accompanying financial statements contain all adjustments (consisting of normal and recurring accruals) necessary to present fairly all financial statements in accordance with GAAP. The condensed consolidated financial statements herein should be read in conjunction with the Company s audited consolidated financial statements and notes thereto for the fiscal year ended June 30, 2010, included in the Company s Annual Report on Form 10-K for the year ended June 30, 2010. Operating results for the three months ended September 30, 2010 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) Marketable Investment Securities

The Company has classified its marketable investment securities as available-for-sale. These securities are carried at estimated fair value with unrealized holding gains and losses, net of the related tax effect, included in accumulated other comprehensive income in stockholders equity until realized. Gains and losses on investment security transactions are reported on the specific-identification method. Dividend and interest income are recognized when earned.

The amortized cost, gross unrealized holding gains, gross unrealized holding losses, and fair value for available-for-sale securities by major security type and class of security at September 30, 2010 and June 30, 2010 were as follows (in thousands):

| | Amortized cost | Gross unrealized holding gains | Gross unrealized holding losses | Estimated fair value |
|---|---|---|---|---|
| At September 30, 2010: | | | | |
| Cash and cash equivalents: | | | | |
| Cash | $ 34,425 | $ | $ | $ 34,425 |
| Cash equivalents | 88,880 | | | 88,880 |
| Total cash and cash equivalents | 123,305 | | | 123,305 |
| Available-for-sale: | | | | |
| Corporate bonds and notes | 223,663 | 540 | (105) | 224,098 |
| Federal agency issues | 159,512 | 143 | (6) | 159,649 |
| Auction rate securities | 1,500 | | (150) | 1,350 |
| Total | $ 507,980 | $ 683 | $ (261) | $ 508,402 |

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| | Amortized cost | Gross unrealized holding gains | Gross unrealized holding losses | Estimated fair value |
|---|---|---|---|---|
| At June 30, 2010: | | | | |
| Cash and cash equivalents: | | | | |
| Cash | $ 23,314 | $ | $ | $ 23,314 |
| Cash equivalents | 69,525 | 1 | | 69,526 |
| Total cash and cash equivalents | 92,839 | 1 | | 92,840 |
| Available-for-sale: | | | | |
| Corporate bonds and notes | 272,371 | 658 | (339) | 272,690 |
| Federal agency issues | 121,448 | 55 | (1) | 121,502 |
| Auction rate securities | 1,500 | | (150) | 1,350 |
| Total | $ 488,158 | $ 714 | $ (490) | $ 488,382 |

Maturities of debt securities classified as available-for-sale are as follows at September 30, 2010 (in thousands):

| | Amortized cost | Estimated fair value |
|---|---|---|
| Cash equivalents | $ 88,880 | $ 88,880 |
| Available-for-sale: | | |
| Due within one year | 304,617 | 305,033 |
| Due after one year through three years | 78,558 | 78,714 |
| Due after three years | 1,500 | 1,350 |
| | $ 473,555 | $ 473,977 |

(3) Share-Based Compensation

In 2003, the Company adopted and the shareholders approved the 2003 Employee, Director and Consultant Stock Option Plan, as amended most recently in November 2009 (the 2003 Plan ), under which 18.8 million shares of common stock have been reserved for issuance upon the exercise of options that the Company grants from time to time. Additional shares represented by options previously granted under the Company s 2002 Amended and Restated Employee, Director and Consultant Stock Option Plan (the 2002 Plan ) which are canceled or expire after the date of stockholder approval of the 2003 Plan without delivery of shares of stock by the Company and any shares which were reserved but not granted under the 2002 Plan as of the date of stockholder approval of the 2003 Plan are available for grant under the 2003 Plan. As of September 30, 2010, approximately 2.0 million shares represented by options that remain outstanding under the 2002 Plan will transfer to the 2003 Plan if they are cancelled or expire without delivery of the shares of stock by the Company.

The number of shares, terms, and vesting period are determined by the compensation committee of 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. Options are granted to members of the board of directors under the terms of the 2003 Plan and vest on the first anniversary of the date of grant. The exercise price of options granted is equivalent to the fair market value of the stock on the date of grant. During the three months ended September 30, 2010, the Company granted approximately 1.4 million options under the 2003 Plan. The Company also has an Employee Stock Purchase Plan under which 2.0 million shares of common stock have been authorized and, as September 30, 2010, approximately 0.4 million shares are available for purchase by eligible employees. Any shares are issued twice yearly at the end of each six month offering period. During the three months ended September 30, 2010, the Company issued no shares of common stock under the Employee Stock Purchase Plan.

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Share-based compensation expense recognized and included in the consolidated statements of operations was allocated as follows (*in thousands*):

| | Three months ended Sep. 30, | |
|---|---|---|
| | 2010 | 2009 |
| Molecular diagnostic cost of revenue | $ 298 | $ 219 |
| Research and development expense | 1,050 | 906 |
| Selling, general, and administrative expense | 5,025 | 4,253 |
| Total share-based compensation expense | $ 6,373 | $ 5,378 |

During the three months ended September 30, 2010, 70,912 stock options were exercised at a weighted average exercise price of $10.50. As of September 30, 2010, there was approximately $37.5 million of total unrecognized share-based compensation cost related to share-based awards granted under the Company s plans that will be recognized over a weighted-average period of 2.6 years.

(4) Stockholders Equity

*Comprehensive Income*

The components of the Company s comprehensive income are as follows:

| | Three months ended Sep. 30, | |
|---|---|---|
| *(In thousands)* | 2010 | 2009 |
| Net income | $ 22,538 | $ 30,442 |
| Unrealized gain (loss) on available-for-sale securities, net of tax | 123 | (96) |
| Comprehensive income | $ 22,661 | $ 30,346 |

*Stock Repurchase Program*

On May 3, 2010, the Company s board of directors authorized the repurchase of $100 million of the Company s outstanding common stock. On August 30, 2010, the Company s board of directors authorized the repurchase of an additional $100 million of the Company s outstanding common stock. During the period ended September 30, 2010, the Company repurchased and retired approximately 1.8 million shares of its common stock under the original share repurchase program completing the original repurchase of $100 million and retiring and accumulated 5.7 million shares. No shares have been repurchased under the second authorization. The Company expects to complete the share repurchase program on or before June 30, 2011. The Company uses the par value method of accounting for its stock repurchases. As a result of the stock repurchases the Company reduced common stock and additional paid-in capital by an aggregate of $12.8 million and charged $15.8 million to retained earnings for the period ended September 30, 2010.

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(5) Earnings Per Share

Basic earnings per share is computed based on the weighted-average number of shares of the Company s common stock outstanding. Diluted earnings per share is computed based on the weighted-average number of shares of the Company s common stock, including common stock equivalents outstanding. Certain common shares consisting of stock options that would have an antidilutive effect were not included in the diluted earnings per share attributable to common stockholders for the three months ended September 30, 2010 and 2009.

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

| | Three months ended Sep. 30, | |
|---|---|---|
| | 2010 | 2009 |
| **Denominator:** | | |
| Weighted-average shares outstanding used to compute basic earnings per share | 93,263 | 95,970 |
| Effect of dilutive stock options | 1,471 | 3,522 |
| Weighted-average shares outstanding and dilutive securities used to compute dilutive earnings per share | 94,734 | 99,492 |

For the three months ended September 30, 2010, there were outstanding potential common equivalent shares of 9,256,113, compared to 4,453,927 in the same period in 2009, which were excluded from the computation of diluted earnings per share because the effect would have been anti-dilutive. These potential dilutive common equivalent shares may be dilutive to future diluted earnings per share.

(6) Segment and Related Information

The Company s business units from continuing operations have been aggregated into two reportable segments: (i) genetics and (ii) molecular diagnostics. The genetics segment is focused on the discovery of genes related to major common diseases and includes corporate services such as finance, human resources, legal, and information technology. The molecular diagnostics segment provides testing to determine predispositions to common diseases.

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

| *(In thousands)* | Genetics | Molecular diagnostics | Total |
|---|---|---|---|
| Three months ended Sep. 30, 2010: | | | |
| Revenue | $ | $ 91,858 | $ 91,858 |
| Depreciation and amortization | 485 | 1,272 | 1,757 |
| Segment operating income (loss) | (11,400) | 46,991 | 35,591 |
| Three months ended Sep. 30, 2009: | | | |
| Revenue | $ | $ 85,122 | $ 85,122 |
| Depreciation and amortization | 526 | 1,253 | 1,779 |
| Segment operating income (loss) | (10,838) | 40,550 | 29,712 |

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| *(In thousands)* | Three months ended Sep. 30, 2010 | 2009 |
|---|---|---|
| Total operating income for reportable segments | $ 35,591 | $ 29,712 |
| Interest income | 721 | 1,913 |
| Other | (134) | (215) |
| Income tax provision | 13,640 | 968 |
| Net income | $ 22,538 | $ 30,442 |

(7) Fair Value Measurements

The fair value of the Company s financial instruments reflects the amounts that the Company estimates to receive in connection with the sale of an asset or paid in connection with the transfer of a liability in an orderly transaction between market participants at the measurement date (exit price). The fair value hierarchy prioritizes the use of inputs used in valuation techniques into the following three levels:

Level 1 quoted prices in active markets for identical assets and liabilities.

Level 2 observable inputs other than quoted prices in active markets for identical assets and liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Some of the Company s marketable securities primarily utilize broker quotes in a non-active market for valuation of these securities.

Level 3 unobservable inputs.

The substantial majority of the Company s financial instruments are valued using quoted prices in active markets or based on other observable inputs. The following table sets forth the fair value of our financial assets that the Company re-measured:

| *(In thousands)* | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| at September 30, 2010 | | | | |
| Money market funds (a) | $ 29,582 | $ | $ | $ 29,582 |
| Corporate bonds and notes | | 283,396 | | 283,396 |
| Federal agency issues | | 159,649 | | 159,649 |
| Auction rate securities | | | 1,350 | 1,350 |
| Total | $ 29,582 | $ 443,045 | $ 1,350 | $ 473,977 |

| *(In thousands)* | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| at June 30, 2010 | | | | |
| Money market funds (a) | $ 29,929 | $ | $ | $ 29,929 |
| Corporate bonds and notes | | 296,987 | | 296,987 |
| Federal agency issues | | 136,802 | | 136,802 |
| Auction rate securities | | | 1,350 | 1,350 |
| Total | $ 29,929 | $ 433,789 | $ 1,350 | $ 465,068 |

(a) Money market funds are primarily comprised of government and agency obligations and accrued interest

As of September 30, 2010, the Company held $1.4 million of investments which were measured using unobservable (Level 3) inputs. These investments represent less than 1% of our investments portfolio and were classified as Level 3 assets as of September 30, 2010. Our Level 3 assets consist of auction rate securities and the value is determined based on market quotes of comparable securities. There were no changes in the composition or estimated fair value of our Level 3 financial assets, which are measured at fair value on a periodic basis, for the period ended September 30, 2010.

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(8) Commitments and Contingencies

The Company is subject to various claims and legal proceedings covering matters that arise in the ordinary course of its business activities. Management believes any liability that may ultimately result from the resolution of these matters will not have a material adverse effect on the Company s consolidated financial position, operating results, or cash flows.

(9) Income Taxes

In order to determine the Company s quarterly provision for income taxes, it used an estimated annual effective tax rate, which is based on expected annual income and statutory tax rates in the various jurisdictions in which the Company operates. Certain significant or unusual items are separately recognized in the quarter during which they occur and can be a source of variability in the effective tax rates from quarter to quarter.

Income tax expense for the three months ended September 30, 2010 was $13.6 million, or approximately 38% of pre-tax income compared to $1.0 million income tax expense for the three months ended September 30, 2009. The effective tax rate for the three months ended September 30, 2010 differs from the U.S. federal statutory rate of 35% primarily due to state income taxes and non-deductible stock option expenses.

The Company files U.S. and state income tax returns in jurisdictions with various statutes of limitations. The Company s consolidated federal tax return and any significant state tax returns are not currently under examination.

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

We are a leading molecular diagnostic company focused on developing and marketing novel predictive medicine, personalized medicine, and prognostic medicine products. We believe that the future of medicine lies in a shift from a treatment paradigm to a prevention paradigm. By understanding the genetic basis of disease, we believe that individuals who have a greater risk of developing disease can be identified and physicians can use this information to improve patient outcomes and better manage patient healthcare. We employ a number of proprietary technologies that help us to understand the genetic basis of human disease and the role that genes and their related proteins may play in the onset, progression and treatment of disease. We use this information to guide the development of new molecular diagnostic products that are designed to assess an individual s risk for developing disease later in life (predictive medicine), identify a patient s likelihood of responding to drug therapy and help guide a patient s dosing to ensure optimal treatment (personalized medicine), or assess a patient s risk of disease progression and disease recurrence (prognostic medicine).

Our goal is to provide physicians with this critical information that may guide the healthcare management of their patients to prevent disease, delay the onset of disease, or diagnose the disease at an earlier stage when it is more treatable. We are also committed to assisting the physician in managing their patient s healthcare to ensure that they receive the most appropriate therapy based on the patient s individual genetic makeup and the specific cause of their disease.

We offer eight commercial molecular diagnostic products, including four predictive medicine, three personalized medicine products, and one prognostic medicine product. We market these products through our own 315-person sales force in the United States and we have entered into marketing collaborations with other organizations in selected foreign countries, although as of September 30, 2010, we have not received material revenues from foreign sales. Revenue was $91.9 million for the three months ended September 30, 2010, an increase of 8% over revenues of $85.1 million for the same period in the prior year.

The eight commercial molecular diagnostic products that we offer are:

*BRACAnalysis*®, our predictive medicine product for hereditary breast and ovarian cancer;

*COLARIS*®, our predictive medicine product for hereditary colorectal and uterine cancer;

*COLARIS AP*®, our predictive medicine product for hereditary colon cancer;

*MELARIS*®, our predictive medicine product for hereditary melanoma;

*Theraguide*® *5-FU*, our personalized medicine product for chemotherapy toxicity to 5-FU;

*Prezeon* , our personalized medicine product to assess PTEN status for disease progression and drug response;

*OnDose*®, our personalized medicine product to measure chemotherapy exposure to *5-FU;* and

*Prolaris* , our prognostic medicine product for prostate cancer.

Our revenues consist predominately of sales of our molecular diagnostic products. Sales of BRAC*Analysis*, our product which provide a comprehensive analysis of BRCA1 and BRCA2 genes for assessing a woman s risk of developing hereditary breast and ovarian cancer,

accounted for $80.7 million and $75.3 million or 87.8% and 88.4% of total revenues for the periods ended September 30, 2010 and 2009. Sales of COLARIS and COLARIS *AP*, our products which provide a comprehensive analysis of MLH1, MSH6, APC and MYH genes for assessing a person s risk for colorectal cancer or uterine cancer, accounted for $7.1 million and $6.3 million or 7.8% and 7.4% of total revenue for the periods ended September 30, 2010 and 2009. Sales of our other products accounted for of $4.1 million and $3.6 million or 4.4% and 4.2% were generated from our other products which included MELARIS, TheraGuide 5-FU, OnDose, PREZEON, and single site testing as well as a small amount of license revenue during the periods ended September 30, 2010 and 2009.

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During the three months ended September 30, 2010, we devoted substantially all of our resources to supporting our molecular diagnostic products, as well as to the research and development of future molecular diagnostic product candidates. We are developing and intend to launch our ninth molecular diagnostic product for the genetic predisposition of pancreatic cancer on or before December 31, 2010. We have two reportable operating segments genetics and molecular diagnostics. See Note 6 Segment and Related Information in the notes to our condensed consolidated financial statements (unaudited) for information regarding these operating segments.

We incurred research and development expenses of $5.8 million and $5.7 million for the three months ended September 30, 2010 and 2009, respectively. Our research and development expenses include costs incurred in maintaining and improving our eight current molecular diagnostic products and costs incurred for the discovery, development and validation of our pipeline of molecular diagnostic product candidates. Our sales and marketing expenses and general and administrative expenses include costs associated with building our molecular diagnostic business. We expect that these costs will fluctuate from quarter to quarter and that such fluctuations may be substantial.

For the three months ended September 30, 2010, we had net income of $22.5 million that included income tax expense of $13.6 million compared to net income of $30.4 million from the same period in 2009 that included income tax expense of $1.0 million. The increase in the current period income tax expense was primarily due to the application of our effective tax rate of approximately 38% to earnings as mandated by Accounting Standards Codification ( ASC ) 740 *Income Taxes* for companies with consistent profitability. Due to the utilization of net operating loss carryforwards to offset our taxes payable, our actual cash paid for income taxes will be minimal compared to our current income tax expense. In the same period of the previous year, income tax expense was comprised solely of alternative minimum tax and state tax liabilities. As of September 30, 2010, we had an accumulated deficit of $3.8 million.

During the quarter ended September 30, 2010 we completed a share repurchase program of $100 million of our outstanding stock that was authorized by our board of directors in May 2010. On August 30, 2010, we announced that our board of directors authorized the repurchase of an additional $100 million of the Company s outstanding common stock. We expect to complete the additional $100 million share repurchase on or before June 30, 2011.

**Critical Accounting Policies**

Critical accounting policies are those policies which are both important to the presentation of a company s financial condition and results and require management s most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. Our critical accounting policies are as follows:

- revenue recognition;
- allowance for doubtful accounts;
- share-based payment expense; and
- income taxes.

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

*Allowance for Doubtful Accounts.* Trade accounts receivable are comprised of amounts due from sales of our molecular diagnostic products, which are recorded net of any discounts or contractual allowances. We analyze collectability of trade accounts receivable and consider historic experience, customer creditworthiness, facts and circumstances specific to outstanding balances, and payment terms when evaluating the adequacy of the allowance for doubtful accounts. We periodically evaluate and adjust the allowance for doubtful accounts when trends or significant events indicate that a change in estimate is appropriate. Such changes in estimate could materially affect our results of operations or financial position; however, to date these changes have not been material. It is possible that we may need to adjust our estimates in future periods.

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As of September 30, 2010 and June 30, 2010, if a hypothetical ten percent increase in our allowance for doubtful accounts were to occur, this would result in additional bad debt expense and an increase to our allowance for doubtful accounts of $420,000 and $440,000, respectively.

*Share-Based Payment Expense.* We recognize share-based equity compensation in our consolidated statements of operations at 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 increases to the valuation of options granted in future periods and increases in the expense recognized for share-based payments.

*Income Taxes.* Our income tax provision is based on income before taxes and is computed using the liability method in accordance with ASC 740 *Income Taxes*. Deferred tax assets and liabilities are determined based on the difference between the financial statement and tax basis of assets and liabilities using tax rates projected to be in effect for the year in which the differences are expected to reverse. Significant estimates are required in determining our provision for income taxes. Some of these estimates are based on interpretations of existing tax laws or regulations, or the expected results from any future tax examinations. Various internal and external factors may have favorable or unfavorable effects on our future provision for income taxes. Those factors include, but are not limited to, changes in tax laws, regulations and/or rates, the results of any future tax examinations, changing interpretations of existing tax laws or regulations, changes in estimates of prior years items, past levels of R&D spending, acquisitions, changes in our corporate structure, and changes in overall levels of income before taxes all of which may result in periodic revisions to our provision for income taxes.

Developing our provision for income taxes, including our effective tax rate and analysis of potential uncertain tax positions, if any, requires significant judgment and expertise in federal and state income tax laws, regulations and strategies, including the determination of deferred tax assets and liabilities and any estimated valuation allowance we deem necessary to offset deferred tax assets. During the fiscal year ended June 30, 2010, we determined that a valuation allowance was not required for our deferred tax assets because we have established a sufficient history of taxable income from operations. However, if we do not maintain taxable income from operations in future periods, we may increase the valuation allowance for our deferred tax assets and record material adjustments to our income tax expense. Our judgment and tax strategies are subject to audit by various taxing authorities. While we believe we have provided adequately for our uncertain income tax positions in our consolidated financial statements, adverse determination by these taxing authorities could have a material adverse effect on our consolidated financial condition, results of operations or cash flows. Interest and penalties on income tax items are included as a component of overall income tax expense.

**Results of Operations for the Three Months Ended September 30, 2010 and 2009**

Revenue for the three months ended September 30, 2010 was $91.9 million, compared to $85.1 million for the same three months in 2009. This 8% increase in revenue is attributable to approximately 6% in increased testing volume and approximately 2% in price increase. We believe that increased sales, marketing, and education efforts resulted in wider acceptance of our products by the medical community and patients and increased testing volumes. We are currently executing a public awareness campaign and attempting to increase our market penetration in the U.S. OB/Gyn market. Through these and other efforts we are attempting to broaden utilization of BRAC Analysis, which accounted for approximately 87.8% of our revenues during the quarter, with current physician customers and increase the number of new physician customers prescribing our products. We believe these efforts may allow us to continue to grow molecular diagnostic revenue in future periods; however, the markets in which we operate are still experiencing high unemployment, reduced physician office visits, higher health insurance deductibles, and other economic challenges. We believe that there continues to be a negative impact on our revenue growth due to these difficult economic conditions. In addition, because BRACAnalysis and many of our molecular diagnostic products are only utilized once per patient, we will need to sell our services through physicians to new patients or develop new molecular diagnostic products in order to continue to generate revenue. Therefore, there can be no assurance that molecular diagnostic revenue will continue to increase at historical rates or at all.

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Cost of revenue for the three months ended September 30, 2010 was $11.0 million, compared to $11.1 million for the same three months in 2009. This decrease in molecular diagnostic cost of revenue despite an increase in testing volumes is primarily due to technology improvements and efficiency gains in the operation of our molecular diagnostic laboratory. Our gross profit margin was 88% for the three months ended September 30, 2010 compared to 87% for the same three months in 2009. Our gross profit margins may fluctuate from quarter to quarter based on the introduction of any new molecular diagnostic products, changes in our costs associated with such products, and any new technologies and operating systems in our molecular diagnostic laboratory. There can be no assurance that gross profit margins will continue to increase or remain at current levels.

Research and development expenses are comprised primarily of salaries and related personnel costs, laboratory supplies, clinical trial costs for molecular diagnostic products in development, and equipment and facility costs. Research and development expenses incurred during the three months ended September 30, 2010 were $5.8 million compared to $5.7 million for same three months in 2009. This increase of 2% was primarily due to increased research and development associated with clinical studies to support our existing molecular diagnostic products and internal molecular diagnostic product discovery and development. We expect our research and development expenses will increase over the next several years as we work to develop our product pipeline and expand our offerings of molecular diagnostic products.

Selling, general and administrative expenses consist primarily of salaries, commissions and related personnel costs for sales, marketing, customer service, billing and collection, executive, legal, finance and accounting, information technology, human resources, and allocated facilities expenses. Selling, general and administrative expenses for the three months ended September 30, 2010 were $39.5 million, compared to $38.7 million for the same three months in 2009. The increase in selling, general and administrative expense of 2% was due primarily to:

- increase in share-based compensation expense of approximately $0.8 million;
- general increase in administrative costs of approximately $0.2 million to support the growth in our revenues; and
- offset by a decrease in sales and marketing expense of approximately $0.2.

We expect our selling, general and administrative expenses will continue to fluctuate depending on the number and scope of any new molecular diagnostic product launches, such as our launch of our ninth molecular diagnostic product expected to be launched at the end of 2010, and our efforts in support of our existing molecular diagnostic products.

Interest income for the three months ended September 30, 2010 was $0.7 million, compared to $1.9 million for the same three months in 2009, a decrease of 62%. The decrease was due primarily to lower interest rates during the 2010 period.

Income tax expense for the three months ended September 30, 2010 was $13.6 million for an effective rate of approximately 38%, compared to income tax expense of $1.0 million in the 2009 period. Income tax expense for the three months ended September 30, 2009 consisted of alternative minimum tax and state tax liabilities compared to income tax expense for the current quarter that is based on our estimated annual effective tax rate for the full fiscal year ending June 30, 2011. Our annual effective tax rate differs from the U.S. federal statutory rate of 35% primarily due to state income taxes and non-deductible stock option expenses. Certain significant or unusual items are separately recognized in the quarter during which they occur and can be a source of variability in the effective tax rates from quarter to quarter. Due to the utilization of net operating loss carryforwards that offset our taxes payable, our current income tax expense will not be indicative of the actual cash paid for income taxes.

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**Liquidity and Capital Resources**

Cash, cash equivalents, and marketable investment securities increased $20.0 million, or 4%, from $488.4 million at June 30, 2010 to $508.4 million at September 30, 2010. This increase was attributed to increased sales, partially offset by purchasing $28.6 million worth of stock under our share repurchase program, expenditures for our internal research and development programs, purchase of capital assets, sales and marketing expense for our molecular diagnostic products, and other expenditures incurred in the ordinary course of business.

Net cash provided by operating activities was $29.2 million during the three months ended September 30, 2010, compared to $23.2 million provided by operating activities during the same three months in 2009. Our net income was reduced by non-cash charges in the form of share-based compensation and depreciation and amortization during the period was $8.1 million. Deferred income taxes decreased by $12.5 million between June 30, 2010 and September 30, 2010, primarily due to the utilization of net operating losses to offset income taxes payable. Prepaid expenses increased by $1.0 million due to pre-payment of sales and marketing efforts associated with our current DTC campaign.

Our investing activities provided cash of $16.7 million during the three months ended September 30, 2010 and $1.3 million during the same three months in 2009. Investing activities were comprised primarily of purchases and sales and maturities of marketable investment securities. Capital expenditures for equipment and facilities were $2.0 million during the three months ended September 30, 2010.

Financing activities used cash of $15.5 million during the three months ended September 30, 2010 and provided cash of $3.2 million in the same three months in 2009. Cash utilized in financing activities was primarily due to the purchase of $28.6 million of our common stock through our $100 million share repurchase program authorized in May 2010. The cash used in the share purchase program was partially offset by cash provided by the exercise of stock options and excess tax benefits received from stock based compensation.

We believe that with our existing capital resources and expected net cash to be generated from sales of our molecular diagnostic products, 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:

- failure to sustain revenue growth or margins in our molecular diagnostic business;
- termination of the licenses underlying our molecular diagnostic products or failure to enter into product or technology licensing or other arrangements favorable to us;
- delays or other problems with operating our laboratory facilities;
- the costs and expenses incurred in supporting our existing molecular diagnostic products;
- the progress, results and cost of developing and launching additional molecular diagnostic products for our molecular diagnostic business;
- the costs, timing, outcome, and enforcement of any regulatory review of our existing or future molecular diagnostic products;

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

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- the costs, timing and outcome of any litigation against us;
- the introduction of technological innovations or new commercial products by our competitors;
- changes in intellectual property laws of our patents or enforcement in the United States and foreign countries;
- changes in the governmental or private insurers reimbursement levels for our products;
- changes in structure of the healthcare system or healthcare payment systems; and
- the impact of current economic conditions and job loss resulting in fewer doctor visits and loss of employer provided insurance coverage.

**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 Quarterly Report on Form 10-Q contains such forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995.

Words such as may, anticipate, estimate, expects, projects, intends, plans, believes and words and terms of similar substance used in with any discussion of future operating or financial performance, identify forward-looking statements. All forward-looking statements are management s present expectations of future events and are subject to a number of risks and uncertainties that could cause actual results to differ materially and adversely from those described in the forward-looking statements. These risks include, but are not limited to: the risk that sales and profit margins of our existing molecular diagnostic products may decline or will not continue to increase at historical rates; the risk that we may be unable to develop or successfully commercialize additional molecular diagnostic products; the risk that licenses to the technology underlying our molecular diagnostic products and any future products are terminated or cannot be maintained on satisfactory terms; risks related to delays or other problems with operating our laboratory testing facilities; risks related to public concern over testing in general or our products; risks related to regulatory developments or enforcement in the United States and foreign countries and in particular changes in the structure of healthcare payment systems; uncertainties about our ability to obtain new corporate collaborations and acquire new technologies on satisfactory terms, if at all; the development of competing products and services; the risk that we or our licensors may be unable to protect the proprietary technologies underlying our products; the risk of patent-infringement claims; challenges to intellectual property rights underlying our products or changes in intellectual property laws; 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 our Annual Report on Form 10-K for the year ended June 30, 2010, which has been filed with the Securities and Exchange Commission, as well as any updates to those risk factors filed from time to time in our Quarterly Reports on Form 10-Q or Current Reports on Form 8-K.

In light of these assumptions, risks and uncertainties, the results and events discussed in the forward-looking statements contained in this Quarterly Report or in any document incorporated by reference might not occur. Stockholders are cautioned not to place undue reliance on the forward-looking statements, which speak only as of the date of this Quarterly Report. We are not under any obligation, and we expressly disclaim any obligation, to update or alter any forward-looking statements, whether as a result of new information, future events or otherwise. All subsequent forward-looking statements attributable to us or to any person acting on our behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this section.

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

There have been no material changes in our market risk during the three months ended September 30, 2010 compared to the disclosures in Part II, Item 7A of our Annual Report on Form 10-K for the year ended June 30, 2010, which is incorporated by reference herein.

**Item 4. Controls and Procedures**

(a) *Evaluation of Disclosure Controls and Procedures*. Our principal executive officer and principal financial officer, after evaluating the effectiveness of our disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of the end of the period covered by this Quarterly Report on Form 10-Q, have concluded that, based on such evaluation, our disclosure controls and procedures were effective to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and communicated to our management, including our principal executive and principal financial officers, or persons performing similar functions, as appropriate, to allow timely decisions regarding required disclosure.

In designing and evaluating our disclosure controls and procedures, our 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 our management necessarily is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

(b) *Changes in Internal Controls*. There were no changes in our internal control over financial reporting identified in connection with the evaluation of such internal control that occurred during our last fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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**PART II - Other Information**

**Item 1. Legal Proceedings**

There have been no material changes to the legal proceedings included in our Annual Report on Form 10-K for the fiscal year ended June 30, 2010.

**Item 1A. Risk Factors**

There have been no material changes to the risk factors included in our Annual Report on Form 10-K for the fiscal year ended June 30, 2010.

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

**Issuer Purchases of Equity Securities**

On May 3, 2010, we announced a plan to repurchase up to $100 million of the Company s common stock. All purchases of our securities during the quarter ended September 30, 2010 were made pursuant to our plan announced on May 4, 2010 in open market transactions. On August 30, 2010, we announced that our board of directors authorized the repurchase of an additional $100 million of the Company s outstanding common stock with the intention to complete the additional $100 million repurchase by June 30, 2011. In August 2010, we also repurchased the remaining shares available under the initial $100 million authorization, and we did not repurchase any shares under the additional $100 million authorization during the balance of the quarter. The details of the activity during the first quarter were as follows:

| Period | (a) Total Number of Shares Purchased | (b) Average Price Paid per Share | (c) Total Number of Shares Purchased as Part of Publicaly Announced Plans or Programs | (d) Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs |
|---|---|---|---|---|
| August 1, 2010 to August 31, 2010 | 1,762,098 | $ 16.23 | 5,702,118 | $ 100,000,000 |
| Total | 1,762,098 | $ 16.23 | 5,702,118 | $ 100,000,000 |

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

None.

**Item 4. (Removed and Reserved).**

**Item 5. Other Information.**

None

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**Item 6. Exhibits.**

(a) Exhibits

| | |
|---|---|
| 10.1$ | Non-Employee Director Compensation Policy |
| 31.1 | Certification of Chief Executive Officer pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002. |
| 31.2 | Certification of Chief Financial Officer pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002. |
| 32.1 | Certifications pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 101@ | The following materials from Myriad Genetics, Inc. s Quarterly Report on Form 10-Q for the quarter ended September 30, 2010, formatted in XBRL (Extensible Business Reporting Language): (i) the unaudited Condensed Consolidated Balance Sheets, (ii) the unaudited Condensed Consolidated Statements of Income, (iii) the unaudited Condensed Consolidated Statements of Cash Flows, and (iv) Notes to Condensed Consolidated Financial Statements, tagged as blocks of text. |

$ Management contract or compensatory plan or arrangement.

@ Users of the XBRL data are advised pursuant to Rule 406T of Regulation S-T that this interactive data file is deemed not filed or part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934, and otherwise is not subject to liability under these sections.

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

MYRIAD GENETICS, INC.

Date: November 3, 2010

By: /s/ Peter D. Meldrum
Peter D. Meldrum
President and Chief Executive Officer
(Principal executive officer)

Date: November 3, 2010

By: /s/ James S. Evans
James S. Evans
Chief Financial Officer
(Principal financial and chief accounting officer)